# THE AGING OF AGRICULTURE: EMPOWERING YOUNG FARMERS TO GROW FOR THE FUTURE

# HEARING

BEFORE THE

SUBCOMMITTEE ON EMPOWERMENT

AND

SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES, AND SPECIAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

WASHINGTON, DC, NOVEMBER 3, 1999

**Serial No. 106–40**

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE

65–504 WASHINGTON : 2001

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

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# CONTENTS

# THE AGING OF AGRICULTURE: EMPOWERING YOUNG FARMERS TO GROW FOR THE FUTURE

**WEDNESDAY, NOVEMBER 3, 1999**

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON EMPOWERMENT, OF THE COMMITTEE ON SMALL BUSINESS, JOINTLY WITH THE SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES AND SPECIAL SMALL BUSINESS PROBLEMS, OF THE COMMITTEE ON SMALL BUSINESS,

*Washington, DC.*

The Subcommittees met, pursuant to call, at 2 p.m., in Room 2360, Rayburn House Office Building, Hon. Joseph R. Pitts [Chairman of the Subcommittee on Empowerment] presiding.

Chairman PITTS. Good morning, ladies and gentlemen. Thank you for joining us here today for the first joint hearing of the Subcommittee on Empowerment and the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems. The focus of today's hearing is the aging of agriculture: empowering young producers to grow for the future.

Before I proceed with my opening remarks, I would like to note that the Chairman of the Committee on Small Business, the gentleman from Missouri, Mr. Talent, is joining us today, and I am pleased to yield to him for any opening comments he would like to make.

Mr. TALENT. Mr. Chairman, I appreciate that, and I want to thank you and Mr. LoBiondo for inviting me to join you in welcoming the participants of this joint hearing of the two Subcommittees on a subject that is very important. I think it is going to become increasingly important for the future of agriculture and an opportunity for people in agriculture. The trend towards an agricultural system with the average age of the operators of our farms nearing 55 years is of great concern to many in the agricultural community. I share the concerns of that community and applaud Mr. Pitts and Mr. LoBiondo for their willingness and desire to address this issue.

I am proud of Missouri's agriculture industry and recognize the importance of agricultural and agribusiness to the economy of Missouri. In fact, Missouri has a large number of farms, 110,000 of them, making Missouri second only to Texas in states with the most farms. As of 1996, more than 400,000 workers or a full 15 percent of our labor force back home was employed in agriculture. Missouri is also ranked in the top 10 producing States of all major crops and livestock except citrus, and we are working on that. Along with this accomplishment, agriculture contributed over $5 billion in cash farm receipts to the economy of Missouri in 1997.

Unfortunately, 1998 and 1999 have brought low prices and adverse production conditions to Missouri as well as all over the country. A summer-long drought throughout Missouri devastating much of the corn and soy bean crop, combined with a strong U.S. dollar, economic turmoil in Asia, and the large global grain and livestock supplies, we have the ingredients for a recipe for disaster.

The tillers of the soil and the husbandry of livestock have always been honored professions. Thomas Jefferson wrote in 1803 that agriculture is the first in utility and ought to be the first in respect. I agree with that spirit and admiration for the profession of food and fiber production. In my years of interaction with Missouri's farmers and ranchers, I have learned that agriculture, specifically production agriculture, is much more than just an occupation. It is a way of life from which much satisfaction is gained from the creation of something of value from the tiniest of seeds. American producers take pride in the fact that they provide the most abundant, the most affordable, and safest food supply in the world.

Our producers have a long and honorable tradition of creating a legacy and way of life for posterity. The generational family ownership of the farm, passing down and sharing of the family small business from one generation to the next is a great source of honor and tradition which has been celebrated throughout American history. The University of Missouri Agricultural School, arguably the most innovative and forward-thinking agricultural school in the Nation, in 1976 began recognizing farms which had been family legacies for over 100 years through its Century Farm Program. To date, over 2,800 Missouri family farm legacies have been recognized as century farms.

The blood, sweat, and tears which have fertilized these family legacies are the same stones upon which our Nation is built. Yet this great tradition of the continuance of family farm legacies has been short-circuited. Last August, the House Committee on Small Business held two field events focusing on agricultural, tax, regulatory, and trade issues critical to the agricultural community. One concern that was voiced at both of these hearings was the lack of youth entrance into production agriculture. Producers at the hearings told stories of the barriers of entry into agriculture for young people, the most hated of which was the estate tax. I wholeheartedly agree that this tax may be the single most harmful obstacle to the tradition of passing the farm down to the next generation. Why should producers work to create, sustain, and preserve this legacy only to force their loved ones to visit the undertaker and Uncle Sam on the same day? Why should the government penalize America's original small business owners for wanting to pass their heritage and way of life onto their children?

Beyond this discouraging tax policy, young people have to observe the reality that there has not always been a direct relationship between the hard work and intelligent management of the farm by their parents and the profitability of their farm. They realize that Mother Nature is not always sympathetic. The world commodity market is well out of their control, and even during decent years their parents only made a small percentage return on their investment. As a result, young people often decide that it would be easier and more attractive not to enter the family business.

In these hearings that we had in Missouri, I looked at panels like the ones that we have here—which, by the way, I want to say that we have a big sprinkling of young people here on this panel, so I don't want to suggest otherwise, but we had panels in Missouri on the future of the family farm. A number of the witnesses were farmers in their fifties. I wondered at the time whether we could have hearings like that 15 or 20 years from now because as producers leave their farms, their children are not going into the farming business, and we might not be able to constitute a panel like that in a few years if we don't do something.

Of course, the climate cannot be controlled and the effects can only be slightly mitigated, but something can be done to provide a brighter outlook on the marketing side of the equation. Over and over producers tell me that the key to the future of our agricultural legacy is for producers to become price makers instead of price takers. They have to be empowered to begin finding ways to remove themselves from the oppression often of the world commodity market. This will be accomplished through the establishment of producer-owned, value-added processing in the creation of other alternative marketing systems. We must provide producers with the effective technical assistance, engineering, business planning, marketing, organizational assistance to begin developing their own processing and marketing system.

We all know the old parable that a farmer once shared with me: If you feed a person fish, he will eat once; if you teach a person to fish, he will eat for the rest of his life. If we can provide our young farmers and ranchers with appropriate assistance, then they will have the tools to reach up the agriculture value chain. Only when that is accomplished will they have the ingredient that is needed to regrow and grow again rural America.

Once again, I am pleased that the House Committee on Small Business has the opportunity to listen to the concerns of agriculture, America's original small business. I want to thank again Mr. Pitts and Mr. LoBiondo and recognize Mr. Phelps also for his consistent work and advocacy on this issue. I am looking forward to the hearing and thank you, Mr. Chairman, for allowing me to participate.

Chairman PITTS. Thank you, Mr. Chairman.

[Mr. Talent's statement may be found in the appendix.]

Chairman PITTS. As Mr. Talent noted, we are here today to discuss an issue that is of great concern in the agricultural community, the lack of young people entering production agriculture. According to the most recent Census of Agriculture, the average age of American farmers is 54.3 years of age and there seems to be a shortage of young people waiting to succeed our aging farmers as they prepare for retirement. Unfortunately, this shortage means that many of our seasoned farmers with decades of farming experience have fewer people to pass on their legacy to and to benefit from their accumulated years of agricultural experience. Older farmers who are looking towards retirement often find their children are not interested in taking over the family farm, or if they are interested, they are discouraged by the difficulties inherent in the transfer of a farm from one generation to the next.

I have many farmers in my district, the 16th Congressional District of Pennsylvania, Chester and Lancaster Counties. These hard-working Pennsylvania farmers farm about 560,000 acres for a total of nearly 6,000 farms. Over the years they have given me insight into some of the reasons why young people are more reluctant to enter farming. Many who grew up on farms are aware of the tax burden they will face when taking over the family farm. In addition to onerous estate and capital gains taxes, the lack of capital is another obstacle facing young people who want to go into production agriculture.

There is no question that farming is a difficult lifestyle involving long hours of work, unpredictable weather patterns, natural disasters, and fluctuating crop prices. These uncontrollable risks are intrinsic to agriculture and a reality that farmers deal with daily. However, it is the other impediments, the ones that we have the power to change, such as taxes, regulatory barriers, global market access, that are most discouraging to aspiring producers.

I expect that some of the witnesses here today will share some of the same concerns as my constituents. This hearing will allow members of the two Subcommittees to hear firsthand the problems facing aspiring farmers in rural America and then explore some possible solutions. I am pleased to welcome our witnesses. We look to them for insight into the state of agriculture today and the outlook of our changing rural economy. Young producers like those of our first panel represent the future of agriculture, and many are from the congressional districts of the Members sitting on this dais. I thank them for traveling to Washington, D.C., for this hearing and look forward to their testimony.

Dr. Scott Brown is the program director at the Food and Agricultural Policy Research Institute, based out of the University of Missouri at Columbia. Mr. John Young is a farmer from Groffton, New Hampshire. Mr. Lynn Cornwell is the Vice President of the National Cattlemen's Beef Association and is from Glasgow, Montana. Mr. Terry Ecker is a farmer from Elmo, Missouri. Mr. Steve Gross is a farmer from Manchester, Pennsylvania. Mr. Bruce Cobb is a farmer from Bridgeton, New Jersey. Mr. Baron Johnson is a farmer from Inman, South Carolina.

Our second panel consists of experts who will share their experiences with programs designed to empower young farmers to begin and sustain agricultural enterprises. Many of these programs give hope to a generation of aspiring farmers while providing concrete practical solutions to overcoming some of the obstacles existing in agriculture today. I am pleased to welcome our witnesses on the second panel, Mr. Gary Smith, who is from my district, the executive director of the Chester County Development Council; Mr. John Baker, from the Beginning Farmers Center at Iowa State University; and Ms. Susan Offutt, the Administrator of the Economic Research Service at the U.S. Department of Agriculture. So we thank all of you for joining us today.

Small farm and ranch enterprises are the backbone of rural America, and it is my hope that this hearing will provide us with useful information and recommendations about how to sustain this strong segment of our rural economy and to preserve the rich American tradition of production agriculture.

[Mr. Pitts' statement may be found in the appendix.]

Chairman PITTS. Now I will turn the mike over to the distinguished Chairman of the Subcommittee on Rural Enterprises, Business Opportunities, and Special Small Business Problems, my friend from New Jersey Mr. LoBiondo, for his opening comments.

Mr. LOBIONDO. Thank you very much. I would like to thank my colleagues, Congressman Pitts and Congressman Talent, for helping to arrange this. I am absolutely thrilled to co-chair this hearing and to have the opportunity to hear from those of you who are in the real world of agriculture every day, to help outline for us some of the problems. Hopefully we can share this information with a number of our colleagues to let them know there is a real problem, that we think it should be emphasized so we can look to start to find solutions. And I want to thank each of you for being here today, for taking valuable time from your schedules to help us better understand what you are facing on a day-to-day basis. Thank you.

Chairman PITTS. Thank you.

[Mr. LoBiondo's statement may be found in the appendix.]

Chairman PITTS. Since Mrs. Christensen, the Ranking Member of the Rural Enterprises Subcommittee, is unable to join us today, I would like to now turn the mike over to my friend from Illinois, Mr. Phelps, for his opening comments.

Mr. PHELPS. Thank you, Mr. Chairman, and thank all of you for having this hearing and making it available to us, and each and every one of the panelists for your participation today. We appreciate your input. I know that as a member not only of the Small Business Committee but also the Agriculture Committee, I am pleased to be able to participate in a hearing that ties the two together so well. It is my hope that this hearing will allow the Small Business Committee to continue our discussion on the future of farms and what we as the small business community can do to help.

My congressional district covers 27 counties in central and southern Illinois. Every one of the communities I represent is deeply impacted when agriculture experiences tough times. These indeed are some of the toughest in recent memory. Today's hearing will focus on America's aging farmer population and the implications for rural communities and the future of the family farm. We will look at some of the roadblocks the younger farmers face and what we can do to break down those barriers. Some of the possibilities we will be discussing include greater access to capital, alternative marketing strategies, estate taxes, capital gains taxes, state and local grants, USDA programs and the linking of the older producers with younger producers.

Our panel this afternoon includes representatives from the Department of Agriculture, farmers, members of the academic research community, and farm industry representatives.

When the future of rural America is threatened, an entire way of life is endangered. Our purpose today is to generate a discussion about what we can do to keep our heartland alive, help it grow and become even stronger. I would again like to thank the Chairman for the recognizing the importance of this issue, and I look forward to hearing the testimony of our distinguished panelists. Thank you, Mr. Chairman.

Chairman PITTS. Thank you, Mr. Phelps.

We will now go to the witnesses. Each of you will have 5 minutes for your statements. We will use the lights for your convenience.

Dr. Scott Brown.

**STATEMENT OF D. SCOTT BROWN, PROGRAM DIRECTOR, FOOD AND AGRICULTURE POLICY RESEARCH INSTITUTE (FAPRI)**

Dr. BROWN. Thank you, Mr. Chairman, for the opportunity to appear before these Subcommittees to provide information concerning the current state of U.S. agriculture. The Food and Agricultural Policy Research Institute is a joint project between the University of Missouri and Iowa State University. Furthermore, we have formal relationships with Texas A&M University to examine market and policy changes at the farm level, and with the University of Arkansas to analyze the world rice market, and with Arizona State University to examine the fruit and vegetable sectors.

During 1999, attention continues to be focused on the downward pressure on prices for many of the major agricultural commodities. This is occurring at the same time that some regions of the country have experienced severe drought conditions, with the combination of the two putting even greater pressure on some producers. In regards to the lower prices, no single cause can be identified, but rather a combination of fundamental developments in the supply and demands of the commodities.

World grain and oilseed prices are continuing to be pressured by large production levels that would allow stocks to rebuild from their very tight levels of 1995 and 1996. The higher production is due both to increased area and generally favorable yields. In response to the strong price signals in 1995 and 1996, the area devoted to major crops has shown a significant increase. For the 1996 to 1998 period, world wheat area averaged 3.4 percent above the 1991 to 1994 period. A similar story can be seen in other crops as well. Likewise, world red meat production is 14 percent higher over the 1997 to 1999 period relative to the 1990 to 1992 period.

Coupled with increased area, world markets have also seen generally favorable yields since 1995. World coarse grains have seen 3 successive years of above average yields. In the past 30 years we can find only one example, the 1984 to 1987 period, where there were as many consecutive years above trend yields.

Price pressure due to increased supplies is not isolated to the crops markets. For livestock the most notable example is pork. After seeing strong prices in 1996 and much of 1997, pork producers responded with increased herds and additional production. For 1999, pork production is expected to remain at historically high levels. As a result the annual average price is projected to be as much as 40 percent below the 1997 number.

Barring any major production problems, crop and livestock prices will average substantially lower in 1999 and 2000 than what was observed in the 1991 to 1995 period. However we must remember that prices in those years were well above historical levels. In addition, those prices brought increased area that, together with good yields, resulted in more production. The additional supplies have fallen upon a demand picture that has been weakened as a result of the general economic problems centered around the Asian crisis. Both additional supplies and weak demand for agricultural commodities are responsible for the lower prices we face today.

Our current estimate of commodity prices through 2005 shows continued weakness in many cases. Corn prices, for example, are expected to average $2.25 over the next 5-year period, far less than 1996 average of $2.71. It should be noted that our projections are conditioned on average yields that result from normal weather patterns. If yields were to deviate from these averages, prices would move accordingly. Wheat and soybean prices over the same period are also expected to average far below the 1996 level.

Pork prices are also expected to remain below historical averages over the 2000 and 2005 period. FAPRI projects pork prices will average slightly more than $42 per hundredweight over the period which, would be the lowest level observed for many years. Structural change will continue to be one of the big drivers in the pork industry.

Other areas of agriculture are expected to see higher prices over the next few years. The beef industry is expected to see prices over the next 5-year period that will be near those seen during the early 1990s. That is the result of the cattle cycle producing less beef production.

Although many commodity prices are at low levels, 1999 U.S. net farm income is currently expected to exceed $48 billion. That is $4 billion higher than the 1998 level. Even though some commodities like beef are showing higher commodity prices, the increase in farm income expected in 1999 can be traced in large part to increased government payments occurring as a result of the recent agricultural appropriations bill. Farm income in 1999 is still expected to fall over $6 billion from the record level obtained in 1996. Yet it remains above the average of the 1991 to 1995 period by over $5 billion.

One crucial point regarding the outlook for farm income is that unless additional government payments are legislated for 2000, our current estimate of farm income would suggest a decline of over 15 percent to near $40 billion for next year. This decline in farm income would only add to the current stress seen in agriculture.

While the news sounds rather bleak, and certain regions are under tremendous stress, the U.S. agricultural economy as a whole is still in much better shape than the early to mid-1980s. Income levels are well above those of the earlier period, and debt-to-asset ratios have remained at relatively low levels.

In closing, Mr. Chairman, I would like to thank you for the opportunity to address these Subcommittees and welcome any questions.

Chairman PITTS. Thank you.

[Mr. Brown's statement may be found in the appendix.]

Chairman PITTS. We will proceed to all of the witnesses before the Members ask questions.

Mr. John Young.

**STATEMENT OF JOHN YOUNG, FARMER, GROFFTON, NEW HAMPSHIRE**

Mr. YOUNG. Thank you, Mr. Chairman. I am a fourth-generation apple farmer from New England. I have been raising apples for 37 years. My great-grandfather established orchards in the New Haven area of Connecticut back in the 1880s. My grandfather, father, uncles, and cousins had five separate orchard operations covering some 600 acres. At this time only 57 acres remains with only one person making a full-time living raising apples.

Today I will tell you a little bit about the family and why I believe that the family farm is on a decline, at least in our area of the country. What has happened to these five orchards? There are 16 cousins in my generation, and only one is still farming full time. My farm, which was the sixth owned by the Youngs, has been downsized to the point that I raise apples mostly as a hobby and part time.

My written testimony will give more complete details of what has happened, but to summarize quickly, after the death of my grandfather, the five heirs could not find a way for either party to buy out the other. There was little or no retirement fund set aside, so the decision was to liquidate. Low profitability, tax laws, and inflated land values made it impossible for the younger family members to continue. My father's orchard as well as his brother's in New York were sold because of a lack of interest in continuing by my brother and the cousins of my generation. Long hours caused because of lack of availability of farm labor at affordable rates, no guarantee of a paycheck because of weather or low prices, the inability to secure additional capital to expand, and the need to liquidate assets for retirement of the older generation all played a part in these orchards closing.

The one still being operated by my cousin has been downsized. By downsizing he has done away with hired labor. By selling assets he has done away with the need for bank financing. The question is, will this orchard survive into the next generation? It will be very difficult to pay inheritance taxes to satisfy the two nonfarm brothers with this smaller operation.

My orchards started in 1962, expanded from 35 acres of orchard to over 150. We had production at over 50,000 bushels of apples. Low profitability and the lack of available credit to make major expansion as well as the cost of that expansion due to the inflated land values in southern New Hampshire forced the sale of that farm rather than passing it on to my four sons. Of the 20 offspring in the Young family who could be farming today, only one does it full time.

What is the state of family farms? I think that we need to look at the size. In our area of the country, small part-time operators, those who are not hiring outside help, are increasing in numbers. They sell virtually 100 percent of their product directly to the consumers, and they rely primarily on a job off the farm to support their families. The farms that fall into the middle categories, the medium farms, by that I mean farms that employ anywhere from one worker to in the neighborhood of 25, are by and large not financially viable—they are not making it financially, and they are dipping into assets yearly in order to stay in business.

The large family farm, and what I refer to that in the orchard industry or in our area is one that has between 25 and 100 full-time employees, when you get to seasonality, there may be anywhere from another 150 to 250 or 300, they may have gross sales in the $1 million to the $5 million range. These operations are successful. They generally are run by family members, and each one of the family members has an area that is their expertise: accounting, sales, or production. This group of farms is successful as long as they don't need to hire outside management. This is the area where more young people are going into more than anywhere else.

Why didn't our young generation go into the farm on the Young family? One, lack of profitability. Unlike most other businesses, farms produce product without knowing what the price will bring. Long hours and seasonal schedules. In our case, the lack of available farm labor at reasonable prices makes it virtually impossible for employers, the owners of the farms, to work 40-hour weeks. No way to pass on the purchase of the properties due to the Federal inheritance taxes and no retirement benefits. Somehow the coupling of money put back into a farm has to be woven into a retirement plan that you can draw on the same as a person can draw on a Roth IRA.

What would I suggest to the Committee? I would suggest to the Committee or Congress to expand the availability of financing this, an area that is crucial. It is interesting to note that traditionally the Farmers Home Administration has been the Federal lender to farms. In our area the perception that if you get a loan from the Small Business Administration, it is a start, it is a wonderful beginning, it is positive. If you get a loan from the Farmers Home Administration, it is the next step to bankruptcy. It is an odd perception, but it is quite prevalent, at least in our area.

Availability of labor. I would urge the committee and Congress to endorse and support legislation which makes available seasonal labor through foreign worker programs. Changes to inheritance taxes need to be made and control of imports. In our industry we are competing in a worldwide market. My grandfather used to say that you only needed one crop in three to stay in business. That was his advice to me when I was first starting. He said, don't expect to get rich every year, you only need one crop in three to make a living. That isn't true anymore. If we have a crop failure in New England generally, and a grower happens to be lucky enough to have a good crop, and there is a chance for him to make a good profit, the imports take over, and we immediately lose that opportunity to make the one in three that my grandfather would have referred to.

Fourth, I would speak to the reduction of the paperwork burden. Government continues to pass the burden onto the employer. We created an I–9 system which passes the job of controlling our borders from the Immigration Service onto the farmer. We have created a reporting process for new hires, which is a paperwork burden that is collecting minuscule amounts of money for the deadbeat dad program. Government continues to pass on its job to the employer community, and the small employers and the small farmers cannot do that.

Mr. Chairman, I thank you for the opportunity to testify, and I will answer any questions.

Chairman PITTS. Thank you, and you can enter your full written testimony into the record, if you would do that, please.

[Mr. Young's statement may be found in the appendix.]

Chairman PITTS. The next witness is Mr. Lynn Cornwell, Vice President of the National Cattlemen's Beef Association.

**STATEMENT OF LYNN CORNWELL, VICE PRESIDENT, NATIONAL CATTLEMEN'S BEEF ASSOCIATION**

Mr. CORNWELL. Chairman Pitts, Chairman LoBiondo, members of the Subcommittee, thank you for the opportunity to share my thoughts on the aging of agriculture and the factors that currently inhibit young farmers and ranchers from entering my profession. Those of us involved in agriculture often overlook the important work done by this Committee to ensure the viability of America's small businesses, and I commend all of you for your efforts to find ways for young men and women to succeed in the business of producing food and fiber for our Nation and for the world.

I am Lynn Cornwell, vice president of the National Cattlemen's Beef Association. I am a rancher from Glasgow, Montana, third-generation, and constituent of Congressman Rick Hill. I am excited to be here today. I am on my way back to Montana after spending the last few days in New York City at NCBA's beef summit, a 1-day summit held for beef marketers, which includes retailers, food manufacturers, and food service operators. A key aspect of our summit was to review our industry's outlook and the economic factors that seemed to indicate beef demand might be stabilizing for the first time in more than 20 years.

According to the industry analysts, preliminary beef demand data for the first three quarters of 1999 has increased 4.59 percent during the third quarter of 1999 compared to demand during the same period last year. The rate of decline for beef demand has been slowing since 1996, according to the Beef Demand Index, which is calculated by leading independent economics and industry experts using the USDA per capita beef consumption data and the USDA choice retail beef prices adjusted for inflation.

In short, for the first time in two decades the light at the end of the tunnel is growing brighter for cattle men and women. And while we are eager to tackle the challenge of increasing demand, our industry also faces the challenge that is the focus of today's hearing, an aging population of agricultural producers. One needs only to review the average age data of the past few agricultural censuses to recognize the trend.

I am not sure there is a clear-cut solution to enable and encourage young people to get involved in production agriculture. But in reflecting on my own thoughts relative to the challenges that those of us currently in the business face, I think there are some obstacle issues that certainly pose a risk to beginning farmers and ranchers.

First, there is a constant battle against the loss of equity. This is due in part to lack of business opportunity and shrinking returns on investment. While we are seeing improved outlook on the demand side that will hopefully translate into sustained higher market prices, the beef industry has experienced nearly $4 billion in lost equity over the last 4 years.

As farm and ranch kids finish their education and, speaking as a parent, hopefully become smarter, they begin to think, “Why would I want to return to a lifestyle that requires me to work 16 to 20 hours a day and earn a measly $1,000 a month?” The present net return to investment in the cattle business in my part of the country is less than 1 percent.

In many parts of the country, farm and ranch values are doubling or tripling. In the case of ranches at least, this is not because their income potential has substantially grown, but because folks with the resources are willing to pay handsomely for their own isolated corner of the world. For young people trying to buy their way in, they must compete against those who are not concerned with a ranch’s productivity. They simply are investing in real estate.

Speaking of estates, for young men and women facing the prospect of inheriting the family operation, the tax implications are horrible. Death taxes are one of the leading causes of breakups of farms and ranches. NCBA recently celebrated its 100th anniversary. As part of that celebration, we recognized the industry’s centennial operations. One of the common costs and concerns of these families, not to mention the industry’s younger participants, is the prospect of buying their heritage back from the Federal government when death hits a loved one. Many families are forced to sell out. If the operation happens to be located near an urban or suburban area, the farm or ranch often ends up in the hands of the developers. Open space is lost, habitat is lost, and, worst of all, one more agricultural family is forced out of their business and way of life. The death tax must go, and NCBA commends Congress for the progress it is making in this regard.

Federal and state regulatory burdens also discourage a new generation of producers. Issues such as endangered species, clean water, Federal grazing, booming wildlife populations, et cetera, all impact livestock operations. Water quality and ESA habitat issues are reducing/removing many livestock management options and making remaining options increasingly expensive. Many operations are choosing to sell out to bigger, more diverse corporate holdings.

Kids see Dad going to public meetings and having to spend an ever increasing amount of time, energy, and resources on private land issues in local, state, and federal forums just to protect what he has. Forget trying to expand. It has gotten to the point that you need to have a permit or license to do almost anything. Young people need to see a decided decrease in the command and control policies of this country.

Young people also face a daunting choice of opportunities off the farm. Corporate America is recruiting hard in rural areas to find employees that possess a strong work ethic. The lure of salaries and benefits that corporate America can provide is strong. Technology also contributes to the view beyond the farm gate. The Internet brings the world much closer to rural kids at a much earlier age and is having an impact on their life’s goals.

Mr. Chairman, I could go on and on but I think my point is made. Agriculture needs to find ways to compete for the hearts and minds of young people. I am grateful to you for the opportunity to share my thoughts and look forward to working with you on solutions that will help us achieve our mutual goals. Thank you.

Chairman PITTS. Thank you very much, Mr. Cornwell.

[Mr. Cornwell's statement may be found in the appendix.]

Chairman PITTS. Now Mr. Terry Ecker, a farmer from Elmo, Missouri.

**STATEMENT OF TERRY ECKER, FARMER, ELMO, MISSOURI**

Mr. ECKER. Thank you, Mr. Chairman. My name is Terry Ecker, and I am a fourth-generation farmer from northwest Missouri. My family and I raise corn, soy beans, and tend a cow-calf operation. My farm is located about 120 miles north of Kansas City near the town of Elmo in Nodaway County. I am testifying on behalf of the Missouri Farm Bureau, where I am past chairman of the State Young Farmer and Rancher Committee. I have also served as past vice chairman of the American Farm Bureau Young Farmer and Rancher Committee, and I am currently serving on the Missouri Soybean Merchandising Council. I would like to thank you for this opportunity to share my views on some of the challenges facing younger agriculture producers. A special thanks to Chairman Talent for his interest in agriculture and efforts to focus on restoring profitability to family farmers.

I am 36 years old, married and college-educated. Upon graduating from college, I spent 3 years in the agriculture field, and then the opportunity arose for me to purchase a farm next to my family's farm. So with the help of my father, I did that. My father and I worked out an arrangement in which I trade my labor for a share in his equipment. This agreement has worked well, and today, 10 years later, my father is nearing retirement.

My father stills owns about 60 to 70 percent of the equipment, and at some point I will have to decide whether to borrow the money to purchase the equipment or purchase some other equipment. This crossroad is familiar to many young producers. The decision is even more difficult with low commodity prices. It is hard to seriously consider equipment purchases with a $1.50 per bushel corn. To put this in perspective, trading our equipment for just a new tractor and a combine would cost about $120,000 to $150,000, and that still wouldn't give us the latest technology.

Having said that, my reason for turning to farming has not changed. Farming is a way of life that I love. There aren't many occupations that allow family members to work side by side.

Difficulties in succeeding as a young agriculture producer. As a young producer I have made the following observations of why it is difficult for young producers to get started. First and foremost is capital. It has become virtually impossible to enter production agriculture without the assistance of family members who are already farming. Young people are long on labor, but short on capital. I was the youngest full-time farmer in my township 10 years ago when I started farming. Today at the age of 36, I am still the youngest farmer in my township.

Land availability. There is only so much land available, and it is difficult for young producers to compete with established producers. Rental rates may be too high to cash flow, or younger producers are often forced to farm land that is marginally productive.

A third area would be risk management. Young producers with low equity could be wiped out in a single year. Risk management is critical to younger producers who can not afford significant income losses.

I did not expect to get rich when I started farming, but I did expect to have a decent standard of living. Today I see my college friends doing well in their careers. They have 40-hour workweeks, retirement plans and health care packages. They are buying homes, cars, and have a sense of financial security. I see my prices going down, input cost going up, and equity evaporating. So I often ask myself at what point do I become a fool and should seek opportunities outside of agriculture.

Empowering producers to restore profitability. This Nation has been blessed with a climate and a natural resource base that allows us to feed our population and much of the world. Yet it is disheartening to see some of the Nation's brightest children avoiding the return to the farm. Today, given the weakness of the U.S. farm economy, many parents are discouraging their children from returning to the farm, farms which have been in the family for generations. Think about it. We don't see recruiters at colleges line up students to return to farming.

There is no single action that will brighten the future of the family farm, but I would encourage Congress to consider actions that collectively could stem the tide for rural America. Some of these are tax incentives. State and Federal tax codes punish farmers with estate and capital gains, forcing older farmers to retain land. Policymakers need to think outside the box for ways to use the tax code to assist farmers. For example, many farmers and their spouses are forced to work at least part-time off the farm. Is there a way to possibly provide a tax credit for a portion of this off farm income?

Adding values to commodities. Missouri now provides farmers with a tax credit for participating in cooperative efforts that add value to agriculture commodities. This provides an excellent example of how we can move toward selling products rather than commodities.

Federal loan programs. The Farm Service Agency operates several direct loan guarantee programs that can be helpful to farmers. Excessive paperwork and reporting requirements may be preventing rural banks from participating in Federal assistance programs. To this end it would be helpful for Congress to review the requirements placed on banks to participate and utilize FSA loan programs.

Risk management is another area. Congressional actions to revise the Federal crop insurance program are absolutely critical. The current program simply does not work and results in farmers' reliance on ad hoc disaster assistance. As a farmer I would rather have access to markets than a disaster payment. For example, under the package recently packaged by Congress, I will receive $4.70 an acre on some of the farmland that I farm. This money would be better spent to help develop markets for producers of every size.

Mr. Chairman, I spend quite a bit of time in the cab of my tractor thinking about the future. I continue to dream of taking over the family farm. But my fear is that the continued low farm economy will force many young producers such as myself to take advantages of opportunities off the farm, and from where I sit, I hope it doesn't come to that. Thank you.

Chairman PITTS. Thank you, Mr. Ecker, for that compelling testimony.

[Mr. Ecker's statement may be found in the appendix.]

Chairman PITTS. Now, Mr. Steve Gross, a farmer from Manchester, Pennsylvania.

**STATEMENT OF STEVE GROSS, FARMER, MANCHESTER, PENNSYLVANIA**

Mr. GROSS. Thank you, Mr. Chairman. First, I would like to say it is an honor to be here, and I appreciate the opportunity to give my testimony. I am a 31-year-old farmer from Manchester, Pennsylvania, which is just due north of Baltimore. My brother and I are involved in a partnership and work closely with my father. We farm about 1,200 acres. We raise cattle and hogs. We recently opened a store due to the declining prices we were receiving from our cattle and our hogs. We tried to sell our own beef and pork through our store to recapture some of the profit which we have seen decline over the past 3 years, as stated by some of the earlier people. The costs of—the average price per year that we receive for our steers has gone down every year, yet our costs have continued to rise.

There are many barriers that we face as a young agriculture producer. One is the estate tax. My family and I worked hard to build an operation. We paid taxes as we were building it. And then when someone dies, we are punished again. A lot of that land, especially in our area, the reason that it is assessed so high is due to causes outside of agriculture, development pressures like was stated here. Farms are stated—the estate tax is based on what the farm is worth, and the value is raised on outside pressures.

The capital gains ties closely into that industry. A lot of older farmers, especially in our area, that would like to sell some of their farmland or assets to beginning farmers have to consider the capital gains when they sell their farms. My brother and I, for example, were negotiating with an older gentleman on purchasing his farm. When he figured the capital gains cost and what he would need for his health and retirement in case he would go into the nursing home, it made it infeasible for both him to sell it to us and for us to afford it.

Another dilemma I see in agriculture is the need for health insurance deduction. People that I went to school with and worked with professionally all have health insurance as part of their package. They don't pay tax on that. The farmer, being self-employed, they only get to deduct a third of our health insurance every year. I understand that is to be phased out over the years, but that is costing me $4,500 a year right now, and I am only deducting a third of it. I would urge you to think about immediate fully deductible health insurance premiums paid by the young farmer.

Another problem that I perceive in agriculture is financial assistance. I understand there is going to be some talk here about aggie bonds here later. I myself looked into aggie bonds in our State several years ago, and there is a very good program there. However, because my father had a farm and I had some cattle and some farming experience, I was told that I did not qualify, which I thought was unfair.

When I look around my local community, I hear about different industries and how—I will use Starbucks Coffee as an example. They got low-interest money from our State and from the county development authorities because they were going to build in a new area and expand. Yet myself, I wasn't eligible for that. So I looked at FHA for a loan, and as an earlier person stated, it was one step away from bankruptcy. The paperwork to get a low-interest loan states that you have to first prove you have been turned down by other lending institutions. Yet when I look at my competitors, other industries such as Starbucks Coffee, they do not have to prove that they have been turned down by other industries to receive low-interest loans.

So this needs to be looked at a little bit. Instead of providing low-interest loans to someone who is already in trouble, maybe we should be rewarding people who have already managed their assets properly.

Another thing that is really big in our area is farmland preservation. However, the objective of farmland preservation should not be just to preserve land, but to preserve farming businesses and maintain characteristics that are ensured to continue the economic development of farming.

Just in closing I would like to touch a little bit on the trade issue. I spoke earlier in my testimony that I had opened a store and we were selling our meat locally. One reason we did that was because our local grocery store was advertising Argentina beef and putting it on sale. From my reading and research, they use practices there that have been outlawed and regulated in this country for years, certain medicines and feeding practices that we don't allow here. That ties into a little bit of the trade issue that needs to be looked at. Yet where is free trade necessarily fair trade? If I have regulations and restrictions that prevent me from being the cheapest producer of a product, of course it is going to be produced overseas where it is cheaper.

I would like to thank you for the opportunity to testify today.

Chairman PITTS. Thank you, Mr. Gross. Again we will enter your whole written statement into the record.

[Mr. Gross's statement may be found in the appendix.]

Chairman PITTS. The next witness is Bruce Cobb, a farmer from Bridgeton, New Jersey.

I would like to recognize Congressman LoBiondo.

Mr. LOBIONDO. Thank you. I would like to take the opportunity to introduce our next panel member. It is Mr. Bruce Cobb from Shiloh, New Jersey. Bruce is in the 2nd Congressional District, which I represent. I am pleased that he is here today.

Bruce owns and manages ARC Greenhouses, which is located in Shiloh, and his business is unique in that he produces hydroponically-grown herbs and specialty grains for professional chefs and cooks. Bruce is a member of the Cumberland County Board of Agriculture, the New Jersey Farm Bureau, the Agricultural Development Corporation, the Cumberland County Community Agriculture Advisory Board. And I would like to add that not long ago I had the opportunity to visit and see Bruce's operation firsthand. I was both delighted and amazed to see how innovative Bruce has been with his operation. He is very dedicated and a committed member of our agriculture community. I want to thank you for being here today.

## STATEMENT OF BRUCE COBB, FARMER, BRIDGETON, NEW JERSEY

Mr. COBB. Thank you for having me. I would like to tell you a little bit more about what we do than Mr. LoBiondo just said. I think it would put my testimony in perspective. We are a business that is 15 years old. It is a first-generation farm. It is a small farm. Our revenues are between $1 and $1.5 million a year. We grow specialty lettuces. We grow with recirculating hydroponic systems. There are four or five things that we try to do, and that is grow in a protected environment. We actually add sunlight. We light our greenhouses all year-round so that we have a reliable supply week in and week out. We schedule our crops so that we harvest daily, weekly, so that we can have our product picked fresh to fill that day's orders. We recirculate all of our nutrient solutions so we don't have a negative impact on the environment. Our business philosophy in a nutshell is just to be a consistent supplier of high-quality product.

We employ a tremendous amount of technology. We have to move millions of gallons of water each day. We generate all of our own electricity. We use the hot water from the cooler generators to heat our greenhouses. We use electricity to light our greenhouses and run the pumps. We use hundreds of computers that we have designed and built. Our intensive methods produce a very high quantity of food in a very small area. For example, our 2 acres of greenhouses in southern New Jersey produce about the same amount as 23 acres of prime land in the Imperial Valley.

What I have understood that we have been asked to respond to the questions is why are not more young people attracted to agriculture, and what can be done to attract more young people to agriculture, and what can we do to help the people that are in agriculture continue to be successful or make them successful?

I think that simply the economics of the reality of farming today keep people from entering agriculture. The ultimate consideration from one who puts money up to go into a business is are they going to get a fair return on their investment and sweat equity. A typical business model today for farming, you buy some land, you buy a tractor, and you raise some animals, and you sell them to someone else who does the work of packaging, marketing, and does all of the sales work. The farmer raises a commodity and the marketer essentially picks the price. So the marketer can always find someone else either here or in another country willing to grow the product for something less. That is the job of the buyer, and they do it well. In other words, on the average, commodity farming will always be a marginal business; therefore, young people who decide not to enter this type of business are making a wise decision.

I think to attract more people to agriculture, people have to have a higher regard for agriculture in general. Then a higher percentage of entrepreneurs would enter agriculture. Young people start farms, software companies. Both businesses are hard. Both require brains, motivation, luck, ability, the whole gamut. All businesses are hard. But people don't understand that there are so many opportunities in farming and, therefore, aren't attracted to farming. People having attributes to run a successful business are attracted to other types of companies. So I think it is a communications problem.

I think it is something that you could help us out with, and that is to get the word out that there are lots of opportunities in farming, and the government can use your communication and your abilities to get that word out.

There has been a lot of talk about capital. All new businesses require capital. It takes convincing people to obtain capital. So part of being able to run a successful business is also being able to obtain that capital. I don't know if we need a whole lot of programs because I believe that a person who is capable of running a business can also get the necessary capital because they can prove to somebody that they are going to get a good return on their investment, not marginal return on their investment.

The biggest thing that you can do is—the elimination of the inheritance taxes. I think the family farm, most farming entrepreneurs are funded by family funds. I think that is the most important thing you can do. If you would really like to promote agriculture entrepreneurship, then only eliminate inheritance taxes on farms. That would really help.

I would like to hit a couple of things that you could do for us right now. I see I am running out of time. One is the Social Security test. We have a lot of older people that work for us that get upset when they get their Social Security wages cut; people that have worked for other companies for 35 years and want to be productive a little bit more into their lifetime, and they feel they are being cut by the government so that they get taxed at a higher rate.

The INS. We have many workers from Mexican descent, and we are always scared there is going to be an INS raid. We don't want our employees lined up against the wall and quizzed. We want them treated like the human beings that they are, and we want to have regulations that allow us to have a good reliable work force. So let's get these regulations for the INS so it is off the back of the people.

Minimum wage I won't hit on. I think that we need to reduce the wage taxes on people entering agriculture, young people right now. They are just paying—the 15 percent on the little bit they make is too much.

I would have one suggestion that I would like to spend a little bit longer than I have, but that is product labeling. As you already understand our business, we try to have a relationship with our customer. They know where our product was grown that they buy from us.

One of the problems right now there is no truth in labeling. My herbs are up against somebody else's herbs, and by reading both people's packages of herbs, you would think that they said "packed by," that implies that it was grown by, and that is not true. Packed by and grown by. It is the person that grew the product that has all of the sweat equity and all of the hard work and all of the risks into that product, not the person that bought it and packed it. They only had title for it for a very short period of time.

So product labeling would help us with the negative effects that the FQPA is going to have on the U.S. farmers. Product labeling in a nutshell will help farmers with the costs associated with FQPA; promote free trade, because people will know what they are buying. It will educate consumers to buy local. It will let the marketplace push down the amount of pesticide use, and not costly regulations because people will know that if it was grown in the United States, it has less pesticides on it. It will increase opportunities for entrepreneurs and attract investment in U.S. agriculture. It will give farmers the help they need in moving from a commodity to a brand name. It will give the farmers the power to fight the large corporations that control the whole retail food distribution in this country. And product labeling will benefit all farmers and all consumers, and product labeling will release a wave of farmer entrepreneurship in this country. Thank you very much.

Chairman PITTS. Thank you, Mr. Cobb.

[Mr. Cobb's statement may be found in the appendix.]

Chairman PITTS. Mr. DeMint.

Mr. DEMINT. Thank you, Mr. Chairman. It is my pleasure to introduce a constituent from my district, Mr. Baron Johnson, who has come here today from Inman, South Carolina. Mr. Johnson is a peach, apple, and small fruits grower in my district, and he is a fourth-generation farmer, so he knows something about transferring of farms from one generation to the next.

South Carolina has the best peaches in the world, and Mr. Johnson is a big part of making that happen. We thank you for being here and look forward to your testimony, Mr. Johnson.

**STATEMENT OF BARON JOHNSON, FARMER, JOHNSON BROS., INC., INMAN, SOUTH CAROLINA**

Mr. JOHNSON. Thank you. I want to thank you, especially you, Mr. DeMint, for this opportunity to appear before you today. I am a 24-year-old peach, apple, and small fruit grower from upstate South Carolina located between Atlanta, Georgia, and Charlotte, North Carolina. I am a fourth-generation peach farmer, but we found it increasingly difficult to keep on doing what my family has done for so many years. Because it is more difficult to commercially farm peaches, we have gone from 600 acres total down to less than 200. I am attempting to diversify by trying to start a small berry farm with blueberries, blackberries, and raspberries. I farm peaches and apples with my family full time and farm my berries at nights and on weekends.

My comments today are developed with my particular farming expertise in mind, but in talking with other people, they have some of the same problems as I do.

A farm is just like any business with inputs and outputs. In order to stay in business, the cash coming in has to exceed the expenses. With peaches, the cost of all inputs has gone up consistently year after year; however, what the farmer gets back for his crop has not gone up in as many as 15 to 20 years. We can't set the prices, we have to get what we are given. The cost of land, equipment, labor and chemicals has continued to increase, making it virtually impossible to start a new farm from nothing.

To get into farming you either have to be born into it, marry into it, or inherit it. A young person coming out of high school or college wanting to start farming probably has no collateral to put down on the loan, and that makes it difficult to get a loan at all or at a decent interest rate.

Currently, I am paying 10 and 15 percent interest on a line of credit and loan, which makes it very hard to pay anything toward principal to start getting out of debt. Because it takes 3 to 5 years with tree crops to get a good first crop, you have to have a second job that can sustain you for the first 3 to 5 years when have you zero cash flow in. In the fruit business, we have found that you must start out small and build over time. However, in many of the row crop operations in the State, the narrow profit margin has accelerated the trend for those farms to become larger to take advantage of the economies of scale. This trend helps lower cost of production, but it makes it even more difficult for young farmers to get started.

We produce a crop that is extremely labor-intensive. We also live in an area that has a low unemployment rate, and we need programs to help us gain access to additional labor supplies at no additional cost. We don't need additional regulations to add costs without adding any benefits. There is enough of those already.

The agricultural economy is also increasingly dependent on world markets and international trade. It is virtually impossible to compete with imported crops. It seems common sense not to import a commodity while they are fresh and in season here to compete with our own local growers. We need means of praising farmers and the safest food supply in the world. We need to encourage the public to support local farms rather than tell them if they eat fresh fruit, they will be exposed to pesticides. The public needs to be educated about pesticides, what they are, why we need them, and the realistic probability of residues, and realistically how much residue it would take to actually make somebody sick.

Let me close with a few comments that come from experience. In commercial peach packing, the broker, freight company, grocery store warehouse, and grocery store all make money. Why can't the farmer make a profit? The gap between what the farmer gets and what the grocery store gets is too big. For instance, if the grocery store is asking $1.59 a pound, this equals $40 a box. The farmer probably gets 40 to 45 cents a pound, which is $10 a box. Most other countries spend 30 to 60 percent of their disposable income on food, and we spend 10 to 12. The farmer has got to be able to grow his product, manage his farm and realize a profit in the end, and it is just not happening.

Federal, state, and local governments compound the frustration that farmers feel by providing incentives for other businesses to locate next to our farm, drive up land prices, but will not consider the same incentive package for the start-up of a small agricultural business. BMW came in 20 minutes down the road from us. South Carolina Port Authority bought the land and leased it to them for $1 a year. We can't compete with that.

The bottom line to getting young people into agriculture comes down to making a profit. If young people cannot find a way to make a profit in agriculture, they will find other professions. The net result will be the loss of thousands of small businesses and no young people replacing these lost farmers. If this continues to happen, we will be importing more and more food of sources of unknown origin and unknown production practices. Thank you.

Chairman PITTS. Thank you, Mr. Johnson, for that excellent testimony.

[Mr. Johnson's statement may be found in the appendix.]

Chairman PITTS. We thank all of you for your testimony. It has been extremely informative.

Now, if you will indulge the Members, we would like to ask the panel some questions. We will limit each Member to 5 minutes per round.

I will start with a question for Dr. Brown. Dr. Brown, it is obvious from the testimony from the panel that farm income has been static or greatly reduced. Yet I haven't noticed my grocery bill getting any lower. What is happening to the profit margin that the producers are receiving? If the money isn't going to the farmers' pocket, where is it going, and what can be done to increase the profit margin?

Dr. BROWN. One of the things that we need to look at is how productive we have been in agriculture over the past several years. That is one of the reasons that I do think when you look at many agriculture commodities, the prices have remained fairly constant. We have been very good at producing an ample supply of food and have kept prices fairly flat in nominal terms.

When you look at what is happening when we go to the grocery store, yes, we do see prices over time have crept up. Part of that can be associated with some of the additional costs that must be borne by other players that are in that food chain. Wages for the folks to transport that food, to put it on the shelf, all have increased over time. So we have seen some costs for those additional players in the system increase.

Whether or not the kinds of margins that we see in place in some commodities today more than take care of that additional cost is a question that should be addressed.

Chairman PITTS. Mr. Young, you mentioned off-the-farm income, to maintain the farm. Is it often necessary for you or your spouse to hold a second job to make ends meet? Is this a common practice for young farmers?

Mr. YOUNG. Well, in New England and New Hampshire, the only segment of the agricultural industry that is increasing in numbers are people that really earn their living off the farm, and they are doing their agriculture, farming, as a part-time operation, and they are doing it because they love to farm. They can't really afford to do it, but they are really earning their living on the outside.

Also the other component that makes that work, is that they have taken the middleman out. They are into some niche or some retail area in which they can deliver their product directly to the consumer. Those are the people in our area that are successful. The ones that are in the middle category in size of farming are the ones that are really hurting and really declining.

Chairman PITTS. Mr. Cornwell, you and several other panelists mentioned estate taxes, the death tax. We have a bill introduced in Congress that would provide for the elimination for both estate and capital gains tax if a farm pledged to stay in farming, if they were in a state program, or if they would sign an affidavit that the farm would stay in farming. What is your opinion of this type of approach for some kind of tax relief?

Mr. CORNWELL. That would be great, Mr. Chairman. I know the National Cattlemen have worked hand in hand with a lot of Members of this Committee to see that that gets done. We were disappointed that we didn't get the bill signed, but at any rate, I think that would have a direct impact on the livestock industry. I know it would have. If those ranchers were just allowed to stay in business, that would be great.

I will give you an example. There was a ranch that was a neighbor to our family operation in northern Montana that sold about 2 months ago just because the younger generation couldn't pay—I think the ranch was valued at about $8 million. It was a fairly large operation, and the taxes were over $3 million, and so the people that were operating the ranch were my age, two brothers. They liquidated the cow herd and at an auction sold the ranch because they couldn't pay the taxes. That ranch had an annual operating budget of about $800,000 and employed about eight family members. So that operation is gone, and I don't know what is going to happen to it.

Chairman PITTS. One other troubling aspect of the death taxes is that when you liquidate assets, when you have to sell assets to pay death taxes, there is a limit then to what you can borrow when you have to go to the bank to borrow; is that correct?

Mr. CORNWELL. That is correct.

Chairman PITTS. Mr. Ecker, you suggest that tax credits should be developed to aid young farmers. What are the best structured tax incentives that would benefit young farmers, in your opinion?

Mr. ECKER. Well, if there would be something on payroll taxes that a spouse or the young farmer pays in connection with his off-farm job, some type of tax credit that he could apply from his off-farm job to his farm income would be one way. Another way is, just like I mentioned, on our new generation cooperatives in Missouri. We are now getting a tax credit. If you invest in that cooperative, you are going to get a tax credit of 50 percent, that is what it looks like it is going to be now, of what your investment was that you can carry forward I think it is 5 years, or you can even carry it back a few years, which is a good benefit.

Chairman PITTS. Thank you. My time is up.

Mr. LoBiondo.

Mr. LOBIONDO. Thank you. I have just a couple of questions. We talk about the product labeling. Let me just explore that for a moment. You were running out of time when were you talking about that. Are you finding that beside the problem of folks not realizing that maybe the product wasn't grown by the people who are sort of portraying it that way—when we get into this area of EPA and labels and the pesticides, do you find that at this stage of the game what EPA is looking to do is going to further hurt your ability to grow and produce?

Mr. COBB. Absolutely. It is going to be a real detriment to the average U.S. farmer. We try not to grow with pesticides, but that is for a marketing thing, not because I am against pesticides. However, buyers, their job is to buy at the best price. They will just buy from people that are able to use those pesticides in Mexico or Israel or wherever, and they will get better quality, and it will be shipped in overnight. We will not be able to play on the same playing field.

Mr. LOBIONDO. So basically what would happen—correct me if I am wrong—is that our farmers would be denied the use of certain labels; the same chemical manufacturers here in the United States would ship and sell those labels to Argentina, Chile, wherever it may be; our farmers will have a difficult time staying in business; and people will be getting more pesticide than they would have if they were eating American-grown food?

Mr. COBB. That is absolutely correct.

Mr. LOBIONDO. Kind of insanity, isn't it?

Thank you, Mr. Chairman.

Chairman PITTS. What would you put on the label?

Mr. COBB. Years ago when you bought strawberries in a quart, you knew that Mr. Jones down the street had the best quality strawberries, so you bought Mr. Jones' strawberries. So you should put down the name of the person that grew that product and the farm. With the Internet, everybody has more information nowadays. So why shouldn't they know exactly where their product came from? They would give people real faith in what they ate.

We are going to promote open houses. If you want to come see our operation, you can come visit us one Saturday every quarter. I think people would like to do that. They like to see where their food came from.

Mr. LOBIONDO. Let me just take off on that for a minute, too. Right now nothing stops you from putting your name on your label and selling it, but is the problem that somebody either cross-country or down the street can, in fact, put a label on the product that is somewhat misleading or downright misleading?

Mr. COBB. Absolutely. Two issues. One is where the product was grown, and the other is improper labeling or truth in labeling, as I will put it. A lot of packages—you can go out and look at tomatoes. A lot of specialty things say, "Packed by ABC Company." You would think that the ABC Company was the person that grew it, not it came from Chile.

So yes, there are two issues there. We do label all of our products that go out the door. We think that is important. But I think other farmers should do that as well because that builds a strong farming industry, and that is important to me.

Mr. LOBIONDO. So in our supermarkets a consumer can go into a produce aisle and find a container that is labeled "Packaged by ABC Corporation" and think that it is grown by ABC Corporation in Hometown, USA, and actually that product could have been imported from Argentina, Bolivia, Colombia, or wherever it may be.

Mr. COBB. Almost all of competitors in the herb business you could find will say that is true.

Mr. LOBIONDO. Thank you.

Chairman PITTS. Mr. DeMint.

Mr. DEMINT. I will direct my question to Mr. Johnson, but I would like comments from some of the rest of you, too.

Congress is considering raising the minimum wage. I would just like to know if that is going to be a help to you, Mr. Johnson.

Mr. JOHNSON. It is going to cut into a profit margin that is not there now. Labor is our biggest thing. We have several guys that stay year-round. You have to prune peach trees, thin them, spray them. There are things to be done all year long. If the price of labor went up, that would cause our payroll to go up, the taxes to go up and everything. Not just that, but the products that we buy in, they will have more in them, and they will go up. The price of what we get back for our commodity has not gone up in years and years. So it would not help us at all.

Mr. DEMINT. Any other comments about minimum wage?

Mr. COBB. May I respond to that? I hope you understand that if you raise minimum wage, you reduce the number of jobs for minimum wage for low-skilled people. That is what you do, because as I put up greenhouses,—if the minimum wage goes up $1, I will spend money, capital, to reduce the labor input that I need. So the only people that lose in minimum wage jobs are the people that you are trying to help in the first place.

Minimum wage jobs teach people. They give them the opportunity to teach people how to show up for work everyday, which is a skill that, unbeknownst to me, a lot of people don't have in this world. They give people pride. They let people get off the public welfare rolls. We have three people that are now—have started the minimum wage job, have now moved up to becoming U.S. citizens. They are making considerably more than the minimum wage. If they didn't have that opportunity 5 or 6 years ago, they would not be productive citizens now.

You are hurting the people that you are trying to help. We don't expect people to stay on minimum-wage jobs around our place. We expect them to get trained and move on and move on up the ladder, because that is what America is about. Any increase in minimum wage will increase capital input, which will reduce the number of jobs.

Mr. CORNWELL. Minimum wage would have a pretty minimal effect in the livestock industry. Most of our people are individual family operations, and a lot of them don't hire help. But even in the feed yards, a lot of the feed yards have indicated to us that they don't have a lot of people at those levels now. I would say that it would have minimal effect.

Mr. GROSS. Minimum wage in my area is more of a training wage. I do not have migrant laborers like the other two, but high school children or people that attend my church ask for their children to have a job on my farm when they are in high school, 16 or 15 years of age.

The whole theory behind the minimum wage, my understanding is that is a training wage. That essentially—not only do they get the minimum wage, but they get a little responsibility, learn to show up to work on time, like he referred to. They don't stay full-time, they move on and leave my farm and go to a college or another profession. So it would hurt me, as he indicated. I will use more technology if minimum wage is raised.

Mr. YOUNG. I think, speaking from my industry in New England, there are very few minimum wage earners in the apple industry in the Northeast. But you can believe that if a person is being paid $7 an hour, and minimum wage goes up 50 cents, he is going to expect a raise. So there is going to be an effect, but there is not going to be many people that are going to directly receive it because they are earning the minimum wage now.

I think it would be a significant cost that would impact the industry, another one that we probably don't need, because what we are trying to do is raise the bottom, and the bottom is not who is going to be raised, but somebody significantly above the bottom.

Mr. DEMINT. Thank you, Mr. Chairman.

Chairman PITTS. Mr. Sweeney.

Mr. SWEENEY. Thank you, Mr. Chairman. I want to thank you and commend both you and Mr. LoBiondo for conducting these hearings, and the panelists for participating with your very compelling testimony.

I also want to apologize. I have been running in and out because I am in the middle of a Banking Markup. It is kind of an interesting day for me because the banking hearing is about debt relief for foreign nations, about a billion and a half dollars. As I sit here representing a district that is substantially agricultural—and the hub of our economy is really agriculture—and I go through the pain and the anguish of the family farmers in my district every day talking about how we overregulate, how we overtax, and the Catch-22 that you all have done a better job talking about it than I could. It really has an effect on you.

I would ask first if I could submit a formal statement to the record and ask a couple of questions, if I might.

Mr. Young, I am from your part of the world. Upstate New York is not dissimilar from New Hampshire. You spoke about the need for family farmers to seek outside income. You said in response to a question from Congressman Pitts that it was now more the trend that the family farm income really wasn't from the farm as much as it was from the outside income.

What kind of effect, and other panelists might want to answer this as well, what kind of effect does that have on production and on our guarantee that we are going to have fresh viable products and produce or whatever for the areas that we live in, or does it have an effect?

Mr. YOUNG. Well, we are having an increase in numbers of farms, but they are small farms. They probably won't necessarily stay in business forever. These are not the kinds of operations that can be passed on to family members. They are the kinds of operations that are relying on their living, and they are only doing it because they love farming.

It is interesting. Before we downsized my farm, and basically I am just doing it as a hobby now, we went out and started a travel agency so my wife would have a place to go to work, because she had worked the 25 plus years that I had been on the farm. Today my oldest son who was on the farm with me manages a travel agency. My youngest son, who never actually worked on the farm, is actually working as an agriculture consultant for one of the grower organizations in New England. So we are staying in agriculture to some degree, but we are relying on income off the farm.

Mr. SWEENEY. I presume when we are dealing with perishable goods, as dairy are and other products are, it is going to have a negative effect both for the consumer and for the community at large to not be able to ensure that you can purchase or buy those products freshly locally. Would you agree with that?

Mr. YOUNG. Well, to some degree the importation of things such as apple juice concentrate from China has taken the bottom out of the market. Over the years when we have had crop failures, we could generally get 4 to 5 cents a pound for juice apples. This year the top you can get is 3¾ because of the importation of foreign concentrate.

It is very difficult to maintain an industry when we lose the basic financial structure under it due to imports that are coming in that are being grown differently.

Mr. SWEENEY. As I believe Mr. Cobb pointed out, there are different rules in trade policy. We could have a long discussion on that. I will try to get to some more here. I have a lot of them.

For Steve Gross, I just wanted to ask you, you mentioned that you are in partnership with your brother and your parents. Have you thought about what is going to happen to the land once your parents retire, what the implications are? Have you done those kind of calculations?

Mr. GROSS. I can't give you the hard figures or the number, but I will just speak from my mind. Due to the development in our area, increasing in industry and in housing, land prices have skyrocketed, especially in the last 10 years since I have been out of college. We have done some preliminary estate planning, and we have transferred some farmland. My grandfather did transfer a farm to my brother and I, which we purchased. However, the bulk of our family assets, which my father and grandfather owned together, would have an assessed value in the millions.

The estate tax from just when my grandfather passes away to my father and mother's share, we have had some preliminary meetings with consultants, accountants and everything, and it is going to be about $57,000 that we have to come up with in a year just to pay the tax after we have a funeral when my grandfather passes away. So how are we going to transfer our largest asset then from my mother and father to my brother and I? We are not sure yet. There are a number of tools at our disposal, but it is something that is going to have to be worked at. If something would happen to them, if they were to precede my grandfather in death, we would be in real trouble.

Mr. SWEENEY. I see my time is up. I just wanted to say that I think one of the most important things we need to do in Congress is to get the story that each of you have told out to America so they understand your plight as well.

Thank you, Mr. Chairman.

Chairman PITTS. Thank you.

Mr. Thune.

Mr. THUNE. Thank you, Mr. Chairman and members of the panel.

How many on the panel here participate in Federal farm programs? A couple. If we had to look at things that we could change in the Federal farm policy that we have today, what would those things be, in your estimation? Mr. Ecker or Lynn, if you want to—either way.

Mr. ECKER. When we passed Freedom to Farm Act, which I am for Freedom to Farm Act, there were promises made that we would open markets, regulatory reform and such along those lines, and it really hasn't happened. I would a lot rather sell my product for a reasonable price than receive a government payment. And so I think that we need to look at opening our markets and just regulatory and tax reform, which would help lower our cost of production so we would be more competitive with other countries.

Mr. CORNWELL. Thanks, Congressman.

I think that we need to keep government involvement to a minimum. It sends out mixed signals to a lot of producers. And when you have support prices for a lot of commodities, it makes a lot of lazy farmers out of some people, and it actually guarantees some people to be in business that shouldn't be.

But I guess what I am saying is we ought to be kind of careful on these government programs.

Mr. THUNE. The reason that I ask that is there is a lot of discussion going on. I serve on the Agriculture Committee, and there are hearings scheduled after the first of the year which would examine the wide range of Federal farm programs as to what changes or improvements might be made. It seems to me at least today that there are a lot of problems in creating additional surpluses and it is aggravating a problem that we already have, which further depresses prices.

I look at my area of the country, and we are predominantly a lot of small towns. I have 200 or thereabouts towns with fewer than 200 people. As all of those towns and the population base shrinks, there are fewer and fewer farmers and ranchers on the land, less population, which impacts education, which impacts health care and all of these other things. What we are seeing is the family farm goes by the wayside, and so does the community that it supports. There are a lot of sociological implications that go along with that.

But if there were things that we could do to keep young people in farming—and some of the things that had been mentioned, getting rid of the death tax, obviously, to allow those operations to be passed on. But say, for example, you are a farmer, somebody who wants to get into the business, and you don't have the benefit of having a family that is currently farming that can pass on that estate. What are the barriers to entry, and what could we do to remove them?

Mr. CORNWELL. The cost of capital is too high for young farmers that want to get in the business. I think there ought to be some kind of incentive or form of a low-interest loan or things to good qualified borrowers that would allow people to either expand their operations or get into the business.

Mr. THUNE. To what degree—go ahead.

Mr. GROSS. Farming is very unique. It is capital-intense with little return on the investment. Terry alluded to earlier a new combine at $120,000 or a used one, whatever, he would only use that machine 6 or 8 weeks out of the year. If he was going to spend that money in industry where he would run that machine and use that $120,000 for 365 days a year and put two or three shifts on it, it would be a lot different. So the capital intensity is there. We need some kind of break. There are things to do.

Mr. THUNE. Let me, if I—I know, at least my understanding is, Mr. Ecker, that you are associated in some way with value-added-type enterprises. That to me, again, seems, from my point of view—and where I come from, we are a long way from terminal markets, and anything that we can do to add value to the product along the way. What things could we do in terms of incentives? Is there a role for us to play to encourage or stimulate or in some way enhance value-added agricultural opportunities out there?

Mr. ECKER. In the state of Missouri, two ethanol plants broke ground, costing me $13,000. As a young producer I cannot take that out of my budget. But this year the Missouri General Assembly passed tax incentives. So if I invest this $13,000, I am going to get $6,500 back in tax credits. Now, I can justify that because it is reducing my costs, so therefore I am going to gain on the other end because as I sell my corn through this ethanol plant, I am going to get a better return on my investment because I am going to get a value-added product sold that way.

Mr. THUNE. That is something done by the State of Missouri?

Mr. ECKER. Yes.

Mr. THUNE. If I might have one additional question, and Dr. Brown, this might be a question to you, too, or others who would care to comment on this. One of the things that people in my region of the country are honing in on right now, in terms of the issues that are impacting agriculture, is the whole issue of concentration. And to what degree does—those of you who sell your products, you have fewer and fewer buyers, it seems like, at every level up the chain. What is your assessment as to what degree that impacts the future prosperity of agriculture?

Dr. BROWN. I think we are going to see a lot of debate about concentration in the coming year. We at FAPRI, as you may know, are in the business to try to evaluate alternative policies. We will stand ready if there is any kind of movement to curb concentration or so forth to try to help to analyze what that may mean to producers. Take hogs, for example. A lot of these smaller mid-sized producers are going to continue to find markets very hard to come by. This concentration is going to make those markets even less available than they are today. So one of the things that producers are going to have to look at very hard is where the market will be a year or two down the road. Ten years ago I may have had three or four options of where I am going to sell my hogs. Today I may have one. We want to make certain that producers are in the position that 2 or 3 years down the road, those markets are still there.

Mr. COBB. May I respond to that as well? I was just reading on the front page of The Packer or The Produce News that eight companies, food distribution companies, Safeway one of the examples, eight of those people now control 40 percent of the distribution, retail food distribution, in this country.

Product labeling will help the farmer have some power against the buyer because right now the extra job is to get it at the lowest price. If we can't get our name to the consumer and we have that roadblock in front of us, we will never make it. It will not be possible.

Mr. THUNE. I appreciate all of your answers. I think it is true, whether it is grain buyers or meat packers or whatever, there are fewer and fewer. That does limit your options, and ultimately it has a direct impact on price.

Incidently, I am very much in favor of your idea about labeling. It certainly applies to products that come in my region of the country, and I am sure Mr. Cornwell would agree that beef would be a good idea to help market our product there as well. Thank you for your answers.

Mr. CORNWELL. Price reporting is going to help, too.

Mr. THUNE. Right, and we have made some progress on that.

Thank you, Mr. Chairman.

Chairman PITTS. Thank you.

Mr. Moore.

Mr. MOORE. Thank you, Mr. Chairman.

I want to apologize to the Committee and to the panel members. I was, and, in fact, I am still, in a Banking Committee hearing. I have been involved in their markup, and I just came in.

I did want to ask Mr. Gross a question or two. I have reviewed your written testimony, sir. You indicate the primary issue that always comes to mind is the need to eliminate estate taxes. You say in your written testimony, death tax elimination is the Farm Bureau's top tax priority. Is that correct, sir?

Mr. GROSS. Yes.

Mr. MOORE. If elimination of death taxes is not in the immediate future, not in the foreseeable future at least, would you be interested in legislation that would increase the tax credit, say, from $675,000 to $3 million? Would that be helpful?

Mr. GROSS. Yes, but we would like it to be generated towards the family farms. There is some room for negotiation in there. Credit should be given to people like myself or Mr. Ecker, who are helping the family farm generate that farm, build the assets, as maybe opposed to all farm heirs—have other jobs.

Like, for example, I have a sister who is a doctor. She has stated that she would not be interested in our farm and the assets. However—so if the assets were passed to her,—the estate tax could apply. If it stays into farming, then I would support that, yes.

Mr. MOORE. But your indication is through your written testimony that you wanted the estate tax itself eliminated?

Mr. GROSS. Yes, I think so, yes.

Mr. MOORE. But you would be generally supportive of a bill that would increase a credit, say, to $3 million. Wouldn't that cover the great majority of farmers in this country, don't you think?

Mr. GROSS. Yes.

Mr. MOORE. And small business as well?

Mr. GROSS. Yes.

Mr. MOORE. I have a bill that does that. I may send you a copy of that. Thank you.

Chairman PITTS. I can't resist this question. If you were faced with a bill that would raise the minimum wage by $1 over 3 years, but in that bill also you would repeal the death tax and have 100 percent deductibility for health insurance, how would you vote? Anybody care to comment?

Mr. GROSS. I would probably vote in favor of it.

Mr. THUNE. Is the Chairman looking for suggestions?

Chairman PITTS. You have been an excellent panel. We thank you for your testimony. We would like to stay here and continue with questions, but we have another panel. Thank you very much for your testimony. If you would submit your written comments, we will enter them into the record.

I would like to call the second panel to testify. Before turning the chair over to Mr. LoBiondo, I would like to introduce the first witness. Our second panel is composed of Mr. Gary Smith, Ms. Susan Offutt, and John Baker. John Baker is from the Iowa Beginning Farmer Center. Susan Offutt is the Administrator of the Economic Research Service for the U.S. Department of Agriculture.

The first witness I want to introduce is one of my constituents, Mr. Gary Smith. He is the executive director of the Chester County Development Council. I think that he has served in that position for about 24 years. The Chester County Development Council is a private nonprofit economic development organization in Chester County, Pennsylvania. He is a cattle farmer. He has a great deal of experience and expertise. I worked with him for many years when I was in the State legislature.

It is a real pleasure, Gary, to welcome you. At this time if you would make your statement, and I will turn the chair over to Chairman LoBiondo.

## STATEMENT OF GARY SMITH, EXECUTIVE DIRECTOR, CHESTER COUNTY DEVELOPMENT COUNCIL

Mr. SMITH. Thank you, Mr. Chairman. Good afternoon,

Chairman Pitts and also Chairman LoBiondo and members of the Joint Subcommittee. It is certainly a privilege to be here this afternoon to give you some thoughts and reflections about this important issue here facing this country.

My name is Gary Smith. I am Executive Director of the Chester County Development Council. We are a nonprofit organization that serves the economic development needs for Chester County, Pennsylvania, for the past 40 years. I have had the privilege of serving as the executive director for 24 of those years and during my tenure have been able to watch a lot of corporate investment come throughout Chester County. I have also been chagrined that economic development as a profession, which I practice on a daily basis, often fails to consider agricultural development as an integral part of our economy.

On a personal note, I have been born and raised on our family farm on 111 acres in West Bradford Township, Chester County. My father was a fourth-generation dairy farmer that immigrated here from northern Ireland. We successfully manage today a registered Holstein cattle herd for many years and until my father passed away 14 years ago, at which time I have managed to maintain a registered herd, polled Hereford cow-calf operation, a purebred herd of 50 animals, and also raise various crops on our family farm, and continued my occupation off the farm as well.

I have been involved in creating and sitting on many agricultural organizations that support and enhance the profession of farming within our suburban marketplace. I also have had the unique experience to draw on since I work with both the economic development and agricultural development community on a daily basis. I want to bring to you this morning or this afternoon a few of my personal commitments and passions that have drawn this committee together in looking at the future of farming within this country.

I believe that we need to integrate economic development and agricultural preservation to be incorporated into a seamless process. Managing the affairs of our organization of 12 members, staff members and operating budget of 1 million dollars, completely supported by the private sector, I have observed that our profession in the general sense of the word provides an abundance of economic development services to a wide array of companies that are dotted across our landscape. Unfortunately, agriculture has been perceived merely as open space within the growing suburban community. Many public policymakers have considered sound preservation programs in order to preserve open space, i.e., farming; however no one is paying any attention to preserve the occupation, the livelihood, and the professional development of the farmer.

Chairman Pitts, you and your like-minded colleagues have shown tremendous leadership capabilities as an ally of farming, particularly in the area of estate planning and reforms that minimize inheritance taxes which have been imposed upon passing on family farms. This has been a significant step in the right direction towards maintaining stability and continuity in preserving the family farms.

Farming is a business. I emphasize it is a business. It is a business without walls. Unlike the corner gas station or the office building or the industrial factory, it functions as an economic unit within itself with certain fixed costs as well as variable costs that are beyond the farm entrepreneurs' control. We need to deliver a system here in this country that is more attuned to helping a farmer with technology improvements, with production improvements, and with succession planning as a consequence. We in Chester County propose to establish an agriculture development council initiative as our response to this need.

Since I have been personally burdened with the farm issues for many, many years, I have attempted to create new loan initiatives, particularly for Pennsylvania farmers. I currently administer over 26 different low-interest loan programs for businesses and industries throughout our service area. There are no loan programs available for farmers in Pennsylvania, as Mr. Gross, a farmer witness, here indicated. With this in mind, I became aware of existing Federal legislation that also would enable Pennsylvania to create new loan programs and take advantage of programs which other States have taken control of. I began writing editorials in farm journals to get the attention of our Ridge administration, and to his credit, unlike the three previous administrations which had deaf ears to farming in Pennsylvania, the Ridge administration was truly open-minded. They invited me to come and convince senior policymakers that there was actually a need to create a new program. Now Pennsylvania is proud to offer the Next Generation Farm Loan Program, which is being marketed throughout the Commonwealth. I am proud to say that we have many projects that are being used or are using this program.

Allow me to update you on farming as we experience it here in Pennsylvania. Farming is the number one industry in Pennsylvania. Agriculture in southeast Pennsylvania, where Chester County is located, is tremendously productive, growing 42 percent of the State's market value on 23 percent of the State's farms, 16 percent of the State's farmlands. Chester County is number two in agricultural production after Lancaster County, which is also part of Congressman Pitts' constituency. Unfortunately, Chester County as well as Pennsylvania as a whole has twice as many farm operators over the age of 70 than under the age of 35. Since Chester County farms cover about 175,000 acres or about 36 percent of the land area of our county, it has an amassed revenue base of $342 million, according to USDA statistics. Despite the importance of agriculture in the region, we are losing farms and farmlands at an alarming rate. From 1960 to 1992, the region lost 28 percent of its farms, and total farm acreage declined by 21 percent. Chester County is losing over 8 acres a day in farm ground.

It is clear that a set of interrelated barriers are at work to adversely affect the viability of agriculture. They include the following: One, the shortage of beginning farmers to replace retirees; two, the increasing valuation of farmlands for nonfarming purposes; three, the increasing inability of farmers to attract low-interest guaranteed loans; and the difficulties with intergenerational farm transfers; five, the decline in beginning farmers with the technological knowledge to succeed economically and commercially.

Given these factors, there are three new initiatives we would like to talk about: One, the loan issues. Expand the funding which is a vitally important issue; two, to permit Farm Service Agency guarantees on aggie bonds; three, exempt aggie bonds from the volume cap on industrial development bonds.

Also, there are some other issues I want to talk about, but I have written testimony to provide you this, farm succession issues which we need: One, provide concerted assistance to retiring farmers to facilitate transfer of farms; two, to encourage collaboration among farmland preservation organizations and agricultural development agencies that benefit beginning farmers; and we are looking at beginning farmers skills issues, sponsor programs that provide beginning farmers with prerequisite skills.

Today I would like to conclude my comments by just suggesting the following. I would like to say in conclusion I contend that young farmers need to be encouraged to examine a range of succession strategies as they seek the continuation of their farm business, strategies that consider less capital-intensive farming practices and more communication among partners upon marketing opportunities, ongoing skill acquisitions, and better low-interest loan guarantee programs.

Thank you for the opportunity and thank you so much for the commitment to the future of young farmers in this country.

[Mr. Smith's statement may be found in the appendix.]

Mr. LoBiondo [presiding]. We want to thank you very much for your testimony, and all of your written testimony will be submitted for the record.

Next we welcome John Baker, Iowa Beginning Farmer Center. John, thank you for being here.

**STATEMENT OF JOHN BAKER, IOWA BEGINNING FARMERS CENTER**

Mr. Baker. Thank you. Honorable Members of the House, it is indeed a privilege and an honor to appear before you today, and I want to thank you for it. I am an attorney, and I work for Iowa State University. I work for the Extension Service. I am the staff attorney at Iowa Concern Hotline, which is an information and referral hotline open to all Iowans. I answer the legal questions that come in. I am also the administrator of the Beginning Farmer Center, which is a legislatively-created center to look at the issues surrounding helping young people get into agriculture. It was created in 1994. It was the first beginning farmer center in the Nation. Other States have had some success in passing out legislation. And it was funded by the Iowa Legislature.

In addition to my duties, I am also the coordinator for the National Farm Transition Network. It is a network of some 20 organizations. The purpose of the network is to support programs that foster the next generation of farmers and ranchers. We cover about 25 different States. There is a program in Pennsylvania, the Pennsylvania Farm Link, that has been in existence for several years that is a member of the national network.

I believe the most important question facing American agriculture today is whether or not there will be another generation of independently owned and operated farms and ranches. We will solve the problem that we have in the farm economy. We always have, and we will again. But if we only solve that problem for the immediate short term, and we don't look to the next generation, I would argue that we have accomplished very little.

I think this is an issue that is coming to the fore, and it is being recognized by many American farmers. Certainly in Iowa we have had an increase in the average age of farmers with a decrease in the number of farmers. In 1980, we had about 120,000 farms. We are down to about 96,000, and there is some estimate that we will lose about another 6,000 within the next 1 to 2 years. So it is a big issue.

I would also like to commend to you an article written by a farm wife, Ms. Allison Berryhill. I provided that in my written material to you. It was in the Sunday Des Moines Register. It was called "In Consideration of Farming." She concluded, she lamented the fact that her children probably won't farm. She related the tale of a number of farmers in their community, near Atlantic, Iowa, in southwest Iowa, who are no longer farming. She wound up this poignant article with a statement that said, "We are still farming the land, but we have altered our production. I don't think we are raising farmers anymore."

[The information may be found in the appendix.]

Mr. Baker. I think that is something that many farmers feel today.

The Beginning Farmer Center is engaged in a variety of activities to assist beginning farmers. We conduct seminars around the State. We have developed a Farm Savvy manual. I have provided you with an outline of that manual. We have done research into issues surrounding farm business succession plans, and we are going to in January of next year start a longitudinal study of several hundred Iowa farmers about their farm business succession planning, and if funds can be found, we hope to replicate that study all across the Nation.

I work more on the micro level with existing farmers, trying to figure out how to bring people into their farm businesses. So I would like to spend a little bit of my time talking about that, and then I would also like to make a few recommendations.

I think there are several issues barriers facing young farmers. I think number one is the insufficient farm exit strategies of existing farmers. I have the opportunity to put on several seminars every year on farm business estate planning and business succession planning. The average age of the people that show up at those are probably 60 plus years old, and they have no estate plan and no business succession plan.

The other phenomenon that I see out there is called “farmer boy.” Farmer boy is that 55-year-old farmer who has no managerial authority on the family farm, that is still under the control and ownership of the 80-year-old father.

So those are the kinds of exit strategies: Insufficient entry strategy; two, overreliance on borrowing money to buy your way into farming. If you want to get into farming quick, borrow a lot of money, and if you want to get out of farming quick, borrow a lot of money; three, difficulty in obtaining appropriate financial, managerial, and production assistance; four, lack of community support. As my previous speaker Mr. Smith mentioned, we don’t look at agriculture as an economic opportunity; five, difficulty in identifying entry points into farming unless, as one of the previous speakers said, you are born into it; six, the inability to acquire capital. At least in Iowa we still have a very active agriculture lending in our banks.

If I may be so bold, I would recommend to you several different recommendations. Unlike some of the previous speakers, these will not deal with Federal gift and estate tax, nor with capital gains tax. They deal with the income tax. In Iowa we have a standing joke that an Iowa farmer would rather die than pay taxes, so they do. And we don’t bring young people in. I think that we could use the Income Tax Code to incent that. For instance, we could provide a $20,000 income tax credit on the first $20,000 of income for the lease or sale—or lease of farm business assets to a beginning farmer; likewise, a tax credit to the beginning farmer.

In terms of value-retained or value-added closely held enterprises, I think we should provide low-interest loans or no-interest loans to them, provided they make an opportunity for a young farmer.

Finally, I think that it would be appropriate for the USDA to provide matching grant funds to organizations such as Farm Link of Pennsylvania or the Beginning Farmer Center or any of these other programs to help link aspiring beginning farmers with landowners, farmers, and ranchers.

Thank you for your attention to my remarks, and I would be happy to answer any questions.

Mr. LoBiondo. Thank you very much.

[Mr. Baker's statement may be found in the appendix.]

Mr. LoBiondo. Since the vote is in progress, we are going to have to take a recess. Our best guess is that we have probably three votes. I apologize for the delay. This is something that is sort of out of our control, but we will be back as soon as we can.

[Recess—4:25 p.m.]

Mr. LoBiondo [presiding]. All right. We will come back to order and, once again, apologies for some of these things are out of our control.

Next we will hear from Susan Offutt who is the administrator for Economic Research Service for the U.S. Department of Agriculture. Welcome.

**STATEMENT OF SUSAN OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE**

Ms. Offutt. Thank you, Mr. Chairman. I am pleased to be here today, to discuss the aging of agriculture and the participation of young producers in farming.

One of the most remarkable trends in the United States has been its transformation from a largely agrarian society with a third of the population living on farms in the 1920s to a highly urbanized society today with fewer than 2 percent of the population on farms.

At the same time farm numbers have declined by two-thirds, the remaining farm population is slowly aging. The most recent agricultural census determined the average age of farmers to be 54.3 years. Because such findings may lead to speculation about the future of farming in America, it is useful to look more closely at those who farm, those who wish to farm, and to try to understand the reasons people enter and leave farming.

Over the past 4 decades, the average age of American farmers has crept up from 51.3 years in 1964. Today's farmer, at age 54, is about the same age as most self-employed small businessmen in the U.S. The average age has risen over time as farmers have decided to work longer, reflecting the fact that, like the rest of the U.S. population, they are healthier longer than their counterparts decades ago. The average age also rises as the composition of the farm population changes, with relatively fewer young people than in the past.

It is also the case that the agricultural census data, which are the numbers that the committees had access to, overstates the average age of the farmers. The census counts one operator per farm, usually the eldest member of a farming family. So a father, aged 60, would be counted as the farmer, the farm operator; but his son, perhaps 36 years old, expecting to take over the farm, would not be counted in the census at all. That is appropriate since it is a farm census, not a population census, but it does lead to the exclusion of this younger group of people who are full-time farmers in the calculation of the average. So farmers appear older than they probably are.

The next census is going to count everybody on the farm; I can report that to you. But it is the case that the number of young entrants has fallen over time. About 10 years ago about 70,000 people entered farming—not all of them young, by the way—and today probably 60,000 do every year.

And as I said, there are probably more people, young people, in farming than the numbers show. We know this because the Department of Labor that collects data on participation in the labor force finds that many more people report that their full-time occupation as farming than USDA counts as farm operators. So we don't know exactly the size of that difference, but it seems likely that at least some of them are this next generation of farming. They are not lost to us, we are just trying to count them in a different way.

But still it is the case that the traditional pool of new entrants into farming, white males in their 20s who grew up on farms, is declining. It was about three-quarters of a million people in 1990; it is probably down to about 365,000-some today. And of course this shrinkage is due to the fact that there are fewer farms; but also, like everybody else in the economy, farm families have fewer children, so the pool is smaller. But even so, the typical path to farming is entry through the family farm business which was mainly the point of the discussions today.

But there is an alternative path called the agricultural ladder in which—people work on farms, become tenants, and then turn into owner-operators. There is reason to suspect that path to farm participation in farming may make a comeback because of the increase in minority farmers. The census counted about a 10 percent increase in minority farmers over the last one, that brings their numbers to about 50,000 and they tend to enter farming by starting as hired labor on a farm.

The net result of entry and exit into the farm sector over the decades has, of course, been fewer farmers, although the total number has appeared to stabilized; it is about 2 million over the last two censuses. What has generally happened is that several farmers are replaced by one more productive farmer. That is one farmer who produces as much as the others, but with lower labor input, just his own.

Increases in labor productivity have been rapid enough to maintain farm output in the face of these fairly steep declines in the number of farmers. So what that means is that changes in the age composition of the farm population, or its overall size, have not and will likely not have adverse implications for the Nation's food security. There will always be, we believe, enough farmers to produce what we need to eat.

However, it is the case that these shifts in the nature and the age distribution of the farm population raise concerns about the structure and composition of farm and rural communities. Let me just briefly talk a little bit about the barriers to entry into farming.

You heard a lot about barriers in the first panel and I think the story is familiar, but I want to emphasize the relative attractiveness of farm versus nonfarm earnings when a young person decides what profession to undertake. When the nonfarm economy is robust, as it has been for the past 10 years, young people opt for higher but also more stable nonfarm income and employment. That may be particularly true in traditional farming regions in the U.S. and the Upper Midwest, in the Plains, where the populations tend to be highly educated. When the economy puts a premium on highly skilled labor, those who are more educated do better. And it seems likely in the past decade that has been an added inducement for people to choose off-farm employment over farm employment.

But it is also true that good times in the off-farm economy may actually encourage entry into farming. That is because farm families, like most families in the U.S., have two earners. So it may be the case that when a couple is confident about their ability to earn off-farm, they feel they can take on the risk of having one of the earners be a farm operator.

So the impact of the farm economy versus the nonfarm economy can cut both ways. But once you decide you want to be a farmer, that is not the end of it. As we heard, access to capital is the largest barrier. Farm businesses have relatively high capital requirements. The estimate is, it takes about a half a million dollars in assets to support a farm household. That is a lot of capital.

Where do you get it? You can use your own, it comes from your family, you can have it provided by others, or you can borrow it. Up to this point you have heard mostly from people who enter farming with their own capital; that is, it is transferred to them through their family, and those are the kinds of farmers that tend to survive and, not surprisingly, do better early on.

There is another class of people, though, who don't have very much, if any, of their own capital for farming and they have to borrow it or they have to try and acquire it in other ways by leasing land, for example, or machinery, but otherwise get access. Borrowing is probably the familiar route, but there are other ways to get one's hands on the level of assets needed to be successful in farming these days. But there are considerably fewer people who enter farming with low levels of assets, so that is pretty good evidence that it is a significant barrier to entry.

We have already had discussion about the influence of federal and state policies on the entry of young people into farming. The Taxpayer Relief Act of 1997 was, in fact, a significant event. Our analysis shows that the changes do indeed make it easier to transfer the family farm across generations by reducing the likelihood that the farm or some of its assets will need to be sold to pay State taxes. That law probably reduced by about 40 percent the number of farmers who even had to worry about filing for estate tax. So it did already have a significant effect on the burden of inheritance taxes, although it but by no means reduced it to zero.

These people who enter farming without capital from their family very often have sources of credit from Federal lending. The Farm Service Agency under the Agricultural Credit Improvement Act of 1992 created a beginning farmer down payment farm ownership loan program, and it required the agency to target a percentage of its farm operating and ownership loans to beginning farmers and ranchers.

Over the last 5 years FSA has in fact provided loans totalling $2.5 billion to more than 34,000 beginning farmers and ranchers and in many regions of the country that is a quarter of all small farmers in the region. So these FSA loans reach a large audience. And in addition to the subsidized Federal loans that you heard about, aggie bonds are then used to underwrite subsidized State loans.

The Secretary, under the 1992 act, has an advisory committee on beginning farmers, and they reported to him and he is considering their recommendations which go to changes in tax law and pick up many of the themes that you heard from your first panel.

Thank you. I would be happy to answer questions.

[Ms. Offutt's statement may be found in the appendix.]

Mr. LoBIONDO. I think Mr. Congressman Phelps has a few questions. I just have one very quick question for both of you. And let me say that the other members of the Committee will be submitting questions in writing because of the way our schedule got so messed up here today.

But if I could ask you, What is the one most important thing that we as a Congress, as Washington, could do for the ag community?

Mr. BAKER. In my opinion, it would be to take a look at the Federal income tax code and use income tax incentives to bring a younger person into a farming business at an early point.

I get the opportunity to put on farm and estate and business planning seminars, and the majority of people that come to those seminars are 65 or older. They have no business cessation plan, no escape plan. The way most Iowa farmers get out of farming, they made that decision within the last week because the harvest is over and they want to be out by March. They spent 40 years building a business and they want to spend 4 months moving it. It just doesn't happen.

And the income tax code, in my opinion, would incent people to bring that labor, that young person into the business at an early point and cause that transition to take place over a period of time. All of the statistics and studies show that small businesses, the sooner you transfer the management, the better the likelihood that the business will succeed to the next generation; and when you have the 70-year-old farmer that has turned over no managerial control to his son, there is a very high probability that that farm business will go out of existence.

Mr. LoBIONDO. Thank you. Do you have an opinion on that?

Ms. OFFUTT. The research we do, which is based on national research about farmers, shows that compared to the 1930s, the circumstances of farming today are so diverse and so varied that there probably is no one thing that will help everyone.

Mr. LoBIONDO. That is fair.

Ms. OFFUTT. I don't mean that to be a nonanswer.

Mr. LoBIONDO. That is okay.

Congressman Phelps.

Mr. PHELPS. Sorry I had to leave early on, and it is just one of those days. In looking at your testimony, I guess try to sum up concern of what both of you said—try, and in one question, it looks like the large-scale industrialized agricultural movement trends of consolidation and those sorts of things are—I don't know what your study or recommendations or impact showed about the whole rural setting, the problems that for every job loss and farm we have, there are those small businesses that are impacted, which I think makes it so appropriate for us to talk about this in the same setting.

Do you think the economy of farming will be affected?

I know you, Ms. Offutt, you mentioned in your statement about the productivity and the food is still going to be available; but it seems like, if this trend continues, we are going to see impact on rural life even being more depressed.

What is your estimation of what you found in your studies?

Ms. OFFUTT. Well, as I said, the census this time showed that the total number of farms today in the U.S. is about the same as it was 5 years ago. That is really the first time in decades that we have seen a level—leveling off of the decrease in the total number of farms.

Now, a very small percentage of those farms produce most of what we eat, as you said. But a lot of other people are involved in farming for a diversity of reasons, but they are successful, and not in the sense that they are all big corporations who are sending food overseas, but because they found ways to be successful where they live and in the communities where they live.

I will leave for you an article in a periodical we just published today about what makes small farms successful in every region in the country. There are ways to help people succeed on their own terms that will keep them farming on the land.

Mr. PHELPS. And, Mr. Baker, I know that you have covered your experience in your State and what you supervise on farm and other features along that theme. It looks like you have to take into account how—the blending of entering and exiting the occupation in terms of what is happening today. So how is the transfer to the farm in the financial picture arranged?

Mr. LOBIONDO. Excuse me for just a minute, Congressman, we have two options here quickly. We are either going to have the option of asking you all to wait while we go vote again or we can adjourn the hearing and submit questions in writing.

Mr. PHELPS. I think they have waited long enough.

Mr. LOBIONDO. If it is okay with you, Congressman Phelps, we will submit the question in writing and ask for a written response, so we don't hold our panel members up anymore.

Without objection, I will leave the record open for 5 legislative days.

And with that, I want to thank you very much, and this hearing is adjourned.

[Whereupon, at 4:44 p.m., the subcommittees were adjourned.]

JAMES M. TALENT, MISSOURI
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
106th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–0515

# THE AGING OF AGRICULTURE: EMPOWERING YOUNG PRODUCERS TO GROW

November 3, 1999

Opening Statement of Chairman Jim Talent

I would like to thank my colleagues Mr. Pitts and Mr. Lobiondo for inviting me to join them in welcoming the participants of this joint hearing of the Subcommittee on Empowerment and the Subcommittee on Rural Enterprises, Business Opportunities, and Special Small Business Problems. The trend towards an agricultural system with the average age of the operators of our farms nearing 55 years of age is of great concern to many in the agricultural community. I share the concerns of the agricultural community and applaud Mr. Pitts and Mr. Lobiondo for their willingness and desire to address this issue.

I am proud of my home state's agricultural industry and recognize the importance of that industry to the economy of Missouri. In fact, Missouri has a large number of farms, 110 thousand of them, making Missouri second only to Texas in states with the most farms. As of 1996 more that 400,000 workers, a full 15% of Missouri's labor force, was employed in agriculture. Missouri is, also, ranked in the top 10 producing states of all major crops and livestock, except citrus. Along with this accomplishment, agriculture contributed over $5 billion in cash farm receipts to the economy of Missouri in 1997. Unfortunately, 1998 and 1999 has brought low prices and adverse production conditions. A summer-long drought throughout the Missouri devastated much of the corn and soybean crop. Combined with a strong U.S. dollar, economic turmoil in Asia and large global grain and livestock supplies, we have the ingredients of a recipe for disaster.

The tillage of the soil and the husbandry of livestock have always been a honored professions. Thomas Jefferson to David in 1803 said "Agriculture... is the first in utility, and ought to be the first in respect." I agree with the

Jefferson's spirit and admiration for this profession of food and fiber production. In my years of interaction with Missouri's farmers and ranchers, I have learned that agriculture, specifically production agriculture, is much more than an occupation. It is a way of life from which much satisfaction is gained from the creation of something of value from the tiniest of seed. American producers take much pride in the fact that they provide the most abundant, most affordable and safest food supply in the world to America.

American producers have a long, honorable tradition of creating a legacy in their way of life for their posterity. The generational family ownership of the farm--the passing down and sharing of the family small business from one generation to the next -- is a great source of honor which has been celebrated throughout American history. The University of Missouri Ag. School – arguably, the most innovative and forward thinking agriculture school in the nation -- in 1976, began recognizing farms which have been family legacies for over 100 years through its Century Farm Program. To date, over 2800 Missouri family farms legacies have been recognized as Century Farms.

The blood, sweat, and tears which have "fertilized" these family legacies are the same stones which our nation is built upon. Yet, now this great tradition of the continuance of the family farm legacies has been short circuited. Last August the House Committee on Small Business held two field events focusing on agricultural tax, regulatory, and trade issues critical to the agricultural community.

One concern that was voiced at both of these hearings was the lack of youth entrance into production agriculture. Producers at the hearings told stories of the barriers of entry into agriculture for young people -- the most hated of which being the estate tax. I whole-heartedly agreed that this tax may be the single most harmful obstacle to the tradition of passing the farm legacy down to the next generation. Why should producers work to create this legacy, only to force their loved ones to visit the caretaker and Uncle Sam on the same day? And why should the government penalize America's original small business owners for wanting to pass their heritage and way of life on to their children?

Beyond the discouraging tax policy, young people observe the reality that there has not always been a direct relationship between the hard work and the intelligent management of the farm by their parents and the profitability of their farm. They realize that mother nature is not always sympathetic and the world commodity market is well out of their control and even during decent years, their parents only made a small percentage return on their investment. As a result, they often decide that it would be far easier and more attractive to not enter the family business.

Of course mother nature can never be controlled, and her effects can only be slightly mitigated, but something can be done to provide a brighter outlook on the marketing side of the equation. Over and over producers tell me, and I agree, that the key to the future of our agricultural legacy is for producers to become the "price makers" instead of the "price takers." Producers must be empowered to begin finding ways to remove themselves from the world commodity market. This will be accomplished through the establishment of producer owned value-added processing and the creation of other alternative marketing systems. We must provide producers with the effective technical assistance--engineering, business planning, marketing, and organizational assistance--to begin developing their own processing and marketing systems.

There is an old parable that a farmer once shared with me -- If you feed a person fish, they eat once, if you teach a person to fish, they will eat for the rest of their lives. If we provide our young farmers and ranchers the appropriate technical assistance, then they will have the appropriate tools to reach up the agricultural value chain. Only when that is accomplished will they have that secret ingredient that is needed to "re-grow and grow" rural America.

Once again, I am elated that the House Committee on Small Business has the opportunity to listen to the concerns of agriculture—America's original small business.

JAMES M. TALENT, MISSOURI
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
106th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

**Subcommittee on Empowerment**
**Hearing on "The Aging of Agriculture: Empowering Young Producers to Grow for the Future"**
**November 3, 1999**
**Opening Statement of Joe Pitts, Chairman**

Good morning. Thank you for joining us here today for the first joint hearing of the Subcommittee on Empowerment and the Subcommittee on Rural Enterprises, Business Opportunities, and Special Small Business Problems. The focus of today's hearing is the "Aging of Agriculture: Empowering Young Producers to Grow for the Future." we are here today to discuss an issue that is of great concern in the agricultural community-- the lack of young people entering production agriculture. According to the most recent Census of Agriculture, the <u>average</u> age of American farmers is 54.3 years. And there seems to be a shortage of young people waiting to succeed our aging farmers as they prepare for retirement. Unfortunately, this shortage means that many of our seasoned farmers, with decades of farming experience, have fewer people to pass their legacy on to and benefit from their accumulated years of agriculture experience. Older farmers who are looking toward retirement often find their children are not interested in taking over the family farm, or if they are interested, they are discouraged by the difficulties inherent in the transfer of a farm from one generation to the next.

I have many farmers in my district, the 16th district of PA- Chester and Lancaster counties. These hardworking Pennsylvanians farm about 560,000 acres, for a total of nearly 6,000 farms, and over the years, they have given me insight into some of the reasons why young people are more reluctant to enter farming. Many who grew up on farms are aware of the tax burden they will face when taking over the family farm. In addition to onerous estate and capital gains taxes, the lack of capital is another obstacle facing young people who want to go into production agriculture.

There is no question that farming is a difficult lifestyle involving long hours of work, unpredictable weather patterns, natural disasters, and fluctuating crop prices. These uncontrollable risks are intrinsic to agriculture and a reality that farmers deal with daily. However, it is the other impediments, the ones we have the power to change, such as taxes, regulatory barriers, and global market access, that are most discouraging to aspiring producers. I expect that some of the witnesses here today will share some of the same concerns as my constituents.

This will allow Members of the two Subcommittees to hear firsthand the problems facing aspiring farmers in rural America, and then explore some possible solutions. I am pleased to welcome our witnesses. We look to them for insight into the state of agriculture today, and the outlook of our changing rural economy. Young producers like those on our first panel represent the future of agriculture and many are from the congressional districts of the Members sitting on this dais. I thank them for traveling to Washington, DC for this hearing and look forward to their testimony. Dr. Scott Brown is the Program director at the Food and Agriculture Policy Research Institute (FAPRI) based out of the University of Missouri at Columbia; Mr. John Young is a farmer from Groffton, New Hampshire; Mr. Lynn Cornwell is the Vice President of the National Cattleman's Beef Association and is from Glascow, Montana; Mr. Terry Eckerd is a farmer from Elmo, Missouri; Mr. Steve Gross is a farmer from Manchester, Pennsylvania; Mr. Bruce Cobb is a farmer from Bridgeton, New Jersey; and Mr. Baron Johnson, is a farmer from Inman, South Carolina.

Our second panel consists of experts who will share their experiences with programs designed to empower young farmers to begin and sustain agricultural enterprises. Many of these programs give hope to a generation of aspiring farmers while providing concrete, practical solutions to overcoming some of the obstacles existing in agriculture today. I am pleased to welcome our witnesses on the second panel, Mr. Gary Smith, the Executive Director of the Chester County Development Council; Mr. John Baker with the Beginning Farm Center at Iowa State University; and Ms. Susan Offutt, the Administrator of the Economic Research Service at the U.S. Department of Agriculture. Thank you for joining us.

Small farm and ranch enterprises are the backbone of rural America and it is my hope that this hearing will provide us with useful information and recommendations about how to sustain this strong segment of our rural economy and preserve the rich American tradition of production agriculture.

"THE AGING OF AGRICULTURE: EMPOWERING YOUNG PRODUCES TO GROW FOR THE FUTURE"

November 3, 1999

Opening Statement of Frank A. Lobiondo, Chairman

Good afternoon. Welcome to this joint subcommittee hearing to examine the decreasing number of young people entering production agriculture. This hearing is intended to educate members on the state of agriculture today and the potential reasons farming is no longer appealing to our nation's youth.

Thank you to both Chairman Talent, and Congressman Pitts, for working to make this hearing possible.

I am pleased to have a witness with us today from my congressional district. It is my distinct pleasure to introduce Mr. Bruce Cobb. Mr. Cobb owns and manages Arc Greenhouses, located in Shiloh, NJ. His business is unique as they produce hydroponically grown herbs and speciality greens for professional chefs and cooks at home.

Mr. Cobb is a member of the Cumberland County Board of Agriculture, the New Jersey Farm Bureau, the Aquaculture Development Corporation and the Cumberland County Community College Agriculture Advisory Board.

Thank you very much for agreeing to be here today and to educate us on what it means to be an agriculture producer in our nation today. I know you must be very busy and the committee appreciates your time. We look forward to hearing your testimony.

# THE CURRENT STATE OF THE U.S. AGRICULTURAL ECONOMY

Testimony Provided to the
Joint Hearing of the Subcommittee on Empowerment
and the Subcommittee on Rural Enterprises,
Business Opportunities and Special Small Business Problems
of the Committee on Small Business

November 3, 1999

Dr. D. Scott Brown
Program Director
Food and Agricultural Policy
Research Institute (FAPRI)
101 S. Fifth Street
Columbia, Missouri 65201
(573) 882-3576
www.fapri.missouri.edu

THE CURRENT STATE OF THE U.S. AGRICULTURAL ECONOMY

**Introduction**

Thank you, Mr. Chairman for the opportunity to appear before these Subcommittees to provide information concerning the current state of U.S. agriculture. The Food and Agricultural Policy Research Institute (FAPRI) is a joint project between the University of Missouri and Iowa State University. Furthermore, we have formal relationships with Texas A&M University to examine market and policy changes at the farm level, with the University of Arkansas to analyze the world rice market, and with Arizona State University to examine the fruit and vegetable sector.

During 1999, attention continues to be focused on the downward pressure on prices for many of the major agricultural commodities. This is occurring at the same time that some regions of the country have experienced severe drought conditions, with the combination of the two putting even greater pressure on some producers. In regards to the lower prices, no single cause can be identified, but rather a combination of fundamental developments in the supply and demand of the commodities.

**Current Agricultural Situation**

World grain and oilseed prices are continuing to be pressured by large production levels that have allowed stocks to rebuild from the tight levels of 1995 and 1996. The higher production is due both to increased area and generally favorable yields. In response to strong price signals in 1995 and 1996 the area devoted to the major crops has shown a significant increase. For the 1996-98 period, world wheat area averaged 3.4% above the 1991-94 period. A similar story can be seen in other crops as well. Likewise, world red meat production is 14% higher over the 1997-99 period relative to the 1990-92 period.

Coupled with increased area, world markets have also seen generally favorable yields since 1995. World coarse grains have seen three successive years of above-average yields. In the past thirty years we can only find one example, the 1984-87 period, when there were as many consecutive years above trend.

Price pressure due to increased supplies is not isolated to the crop markets. For livestock, the most notable example is pork. After seeing strong prices in 1996 and much of 1997, pork producers responded with increased herds and additional production. For 1999, pork production is expected to remain at historically-high levels. As a result, the annual average price is projected to be as much as 40% below the 1997 number.

**The Outlook for Commodity Prices**

Barring any major production problems, crop and livestock prices will average substantially lower in 1999 and 2000 than what was observed in the 1991-95 period. However, we must remember that prices in those years were well above historical levels. In addition, those prices brought increased area that together with good yields resulted in more production. The additional supplies have fallen upon a demand picture that has been weakened as a result of the general economic problems centered around the Asian crisis. Both additional supplies and weak demand for agricultural commodities are responsible for the lower prices we see today.

FAPRI's current estimate of commodity prices through 2005 shows continued weakness in many cases. Corn prices, for example, are expected to average $2.25 per bushel over the 2000-2005 period, far less than the 1996 average of $2.71 per bushel. It should be noted that FAPRI's projections are conditioned on average yields that result from normal weather patterns. If yields were to deviate from the average, prices would move accordingly. Wheat and soybean prices over the 2000-05 period are also expected to average far below their 1996 level.

Pork prices are also expected to remain below historical averages over the 2000-05 period. FAPRI projects pork prices will average slightly more then $42 per hundredweight over the 2000-05 period which would be the lowest level observed for a six-year period for many years. Structural change will continue to be one of the big drivers of the pork industry.

Other areas of agriculture are expected to see higher prices over the next few years. The beef industry is expected to see prices over the 2000-2005 period that will be near those seen over the 1991-95 period as the cattle cycle results in less beef production over the net few years.

**The Outlook for Agricultural Aggregate Measures**

Although many commodity prices are at low levels, 1999 net farm income is currently expected to exceed $48 billion. That is $4 billion higher than the 1998 level. Even though some commodities, like beef, are showing higher commodity prices the increase in farm income expected for 1999 can be traced in large part to increased government payments occurring as a result of the recent agricultural appropriations bill. Farm income in 1999 is still expected to fall over S6 billion from the record level obtained in 1996 yet it remains above the average of the 1991-95 period by over $5 billion.

One crucial point regarding the outlook for farm income is that unless additional government payments are legislated for 2000, FAPRI's current estimate of farm income would suggest a decline of over 15% to near $40 billion. This decline in farm income would only add to the current stress seen in agriculture.

While the news sounds rather bleak and certain regions are under tremendous stress, the U.S. agricultural economy, as a whole, is still in much better shape than in the early- to mid-1980s. Income levels are well above those of the earlier period and debt-to-asset ratios have remained at relatively low levels.

In closing, Mr. Chairman, I would like to thank you for the opportunity to address these Subcommittees and welcome any questions.

Table 1. U.S. Commodity Prices

| | 1981-85 | 1986-90 | 1991-95 | 1996-99 | 2000-05* |
|---|---|---|---|---|---|
| **Season Average Farm Prices** | | | (Dollars per Unit) | | |
| Wheat, per bu | 3.42 | 3.01 | 3.50 | 3.23 | 3.26 |
| Corn, per bu | 2.62 | 2.12 | 2.49 | 2.25 | 2.25 |
| Soybeans, per bu | 6.10 | 5.90 | 5.95 | 5.89 | 5.30 |
| Cotton, per lb | 0.589 | 0.603 | 0.635 | 0.625 | 0.597 |
| Rice, per cwt | 8.02 | 6.38 | 7.48 | 8.65 | 7.26 |
| **Annual Average Prices** | | | (Dollars per Cwt) | | |
| NE direct steers, 11-1300# | 63.99 | 69.83 | 72.20 | 64.43 | 71.66 |
| Barrows & Gilts, 51-52% lean | 51.21 | 51.97 | 46.29 | 44.47 | 42.08 |
| All milk | 13.44 | 12.91 | 12.80 | 14.55 | 12.98 |
| | | | (Billion Dollars) | | |
| **Farm Income** | 23.91 | 39.31 | 42.97 | 47.87 | |

* Projections by the Food and Agricultural Policy Research Institute (FAPRI).

**NATIONAL CATTLEMEN'S BEEF ASSOCIATION**
1301 Pennsylvania Ave., NW, Suite #300 • Washington, DC 20004 • 202-347-0228 • Fax 202-638-0607

Testimony

On behalf of the

**National Cattlemen's Beef Association**

In regard to

**"The Aging of Agriculture:
Empowering Young Farmers to Grow for the Future"**

Submitted to

**The Subcommittee on Empowerment
The Honorable Joseph R. Pitts, Chairman**
and
**The Subcommittee on Rural Enterprises, Business Opportunities
And Special Small Business Problems
The Honorable Frank A. LoBiondo, Chairman**

Submitted by

Mr. Lynn Cornwell, Vice President
National Cattlemen's Beef Association

November 3, 1999

Initiated in 1898, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry. NCBA is producer-directed, but consumer-focused, with offices in Denver, Chicago and Washington, D.C.

Statement by Lynn Cornwell
Vice President, NCBA
Hearing on "The Aging of Agriculture: Empowering Young Farmers to Grow for the Future"
Subcommittee on Empowerment and Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems
November 3, 1999

Chairman Pitts, Chairman LoBiondo, members of the Subcommittees: Thank you for the opportunity to share my thoughts on the aging of agriculture and the factors that currently inhibit young farmers and ranchers from entering my profession. Those of us involved in agriculture often overlook the important work done by this Committee to ensure the viability of America's small businesses and I commend all of you for your efforts to find ways for young men and women to succeed in the business of producing food and fiber for our nation and the world.

I am Lynn Cornwell, Vice President of the National Cattlemen's Beef Association. I am a rancher from Glasgow, Montana and a constituent of Congressman Hill.

I am excited to be here today. I am on my way back to Montana after spending the past few days in New York City at NCBA's Beef Summit, a one-day seminar held for beef marketers that includes retailers, food manufacturers and foodservice operators. A key aspect of our Summit was the review of our industry's outlook and the economic factors that seem to indicate beef demand may be stabilizing for the first time in more than 20 years.

According to industry analysts, preliminary beef demand data for the first three-quarters of 1999 has increased 4.59 percent during the third quarter of 1999, compared to demand during the same period last year. The rate of decline of beef demand has been slowing since 1996, according to the Beef Demand Index, which is calculated by leading independent economics and industry experts using USDA per capita beef consumption data and USDA Choice retail beef prices adjusted for inflation.

In short, for the first time in two decades, the lights at the end of the tunnel are growing brighter for cattlemen and women. And while we are eager to tackle the challenge of increasing demand, our industry faces the challenge that is the focus of today's hearing -- an aging population of agricultural producers. One needs only to review the "average age" data of past few agriculture censuses to recognize the trend.

I am not sure there is a clear-cut solution to enable and encourage young people to get involved in production agriculture. But in reflecting on my own thoughts relative to the challenges that those of us currently in the business face, I think there are some "obstacle" issues that certainly pose a risk to beginning farmers and ranchers.

First, there is the constant battle against the loss of equity. This is due in part to the lack of business opportunity and shrinking returns on investment. While we are seeing improved outlook on the demand side that will hopefully translate into sustained higher market prices, the beef industry has experienced nearly $4 billion in lost equity over the past four years.

As farm and ranch kids finish their education and, speaking as a parent, hopefully become smarter, they begin to think, "Why would I want to return to a lifestyle that requires me to work 16 to 20 hours a day to effectively earn a $1000 per month?" The present NET return to investment in the cattle business in my part of the country is less than one percent.

In many parts of the country, farm and ranch values are doubling or tripling. In the case of ranches at least, this is not because their income potential has substantially grown, but because folks with the resources are willing to pay handsomely for their own isolated corner of the world. For young people trying to buy their way in, they must compete against those who are not concerned with a ranches' productivity -- they simply are investing in real estate.

Speaking of estates, for young men and women who face the prospect of inheriting the family operation, the tax implications are horrible. Death taxes are one of the leading causes of the breakup of farms and ranches. NCBA recently celebrated its $100^{th}$ anniversary. As part of that celebration, we recognized the industry's centennial operations. One of the common and constant concerns of these families -- not to mention our industry's "younger" participants -- is the prospect of having to buy their heritage back from the federal government when death hits a loved one.

Many families are forced to sell out. If the operation happens to be located near an urban or suburban area, the farm or ranch often ends up in the hands of developers. Open space is lost, habitat is lost, and worst of all, one more agricultural family is forced out of their business and way of life. The death tax must go and NCBA commends Congress for the progress it is making in this regard.

Federal and state regulatory burdens also discourage new generations of producers. Issues such as endangered species, clean water, federal grazing, booming wildlife populations, etc., all impact livestock operations. Water Quality and ESA Habitat issues are reducing/removing many livestock management options and making remaining operations increasingly expensive. Many operations are choosing to sell out to bigger, more diverse, corporate holdings.

Kids see dad going to public hearings, having to spend an ever increasing amount of time, energy and resources on private lands issues in local, state and federal forums just to protect what he has -- forget trying to expand. It has gotten to the point you need a permit or license to do almost anything. Young people need to see a decided decrease in the command and control policies of this country.

Young people also face a daunting choice of opportunities off the farm. Corporate America is recruiting hard in rural areas to find employees that possess a strong work ethic. The lure of salaries and benefits that corporate America can provide is strong. Technology also contributes to the view beyond the farm gate. The Internet brings the world much closer to rural kids at much earlier age and is having an impact on their life goals.

Mr. Chairmen, I could go on, but I think my point is made. Agriculture needs to find ways to compete for the hearts and minds of young people. I am grateful to you for the opportunity to share my thoughts and look forward to working with you on solutions that will help us achieve our mutual goal.

Testimony of Mr. Terry Ecker Before the House Committee on Small Business Subcommittee on Empowerment and the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems, November 3, 1999.

My name is Terry Ecker and I am a fourth-generation farmer from northwest, Missouri. My family and I raise corn and soybeans and tend a cow-calf operation. Our farm is located about 120 miles north of Kansas City near the town of Elmo in Nodaway County. I am testifying on behalf of Missouri Farm Bureau, where I am a past Chairman of the State Young Farmer and Rancher Committee. I have also served as a past Vice-Chairman of the American Farm Bureau Young Farmer and Rancher Committee and currently serve on the Missouri Soybean Merchandising Council.

Thank you for the opportunity to share my views on some of the challenges facing younger agricultural producers. A special thanks to Chairman Talent for his interest in agriculture and efforts to focus on restoring profitability to family farmers.

This hearing is especially timely given the tremendous losses many producers are experiencing due to low commodity prices or crop yields and, in some cases, a combination of both. I would encourage this subcommittee to consider ways to not only encourage new entrants in production agriculture but also focus on "empowering" those already farming.

I am 36 years old, married and college-educated. Upon graduating from college I spent three years in an agricultural field. The opportunity arose for me to purchase some land next to my family's farm, so I did

My father and I worked out an arrangement under which I traded my labor for a share in his equipment. This agreement has worked well and today, ten years later, my father is nearing retirement. My father still owns 60-70 percent of the equipment, and at some point I will have to decide whether to borrow money to purchase the equipment. This crossroads is familiar to many young producers. The decision is even more difficult with low commodity prices—it is hard to seriously consider equipment purchases with $1.50/bushel corn.

To put this in perspective, trading our equipment for a newer tractor and combine would require $120,000-$150,000. And this machinery would not be the latest technology.

Having said that, my reason for returning to farming has not changed. Farming is a way of life—and there aren't many occupations that allow family members to work side-by-side.

Difficulties in Succeeding As a Young Agricultural Producer

Agriculture continues to change with the advent of new technology. In general, farms are declining in number and growing in size. Crop production is extremely capital intensive and farmers are seeing production costs rise and commodity prices fall. This cost/price squeeze hits producers of every size and age—the only difference being the amount of equity that someone can sacrifice waiting for things to improve.

As a younger producer I make the following observations:

- Capital--It has become virtually impossible to enter production agriculture without the assistance of family members who are already farming. Young people are long on labor but short on capital. I was the youngest full-time farmer in my township 10 years ago and still am today.

- Land Availability—There is only so much land available and it is difficult for young producers to compete with established producers. Rental rates may be too high to cash flow or younger producers may be forced to farm land that is only marginally-productive.

- Risk Management—Younger producers with little equity can be wiped out in a single year. Risk management is critical to younger producers who can ill-afford significant income losses.

Farming can quickly become a vicious circle as margins are so small that it takes more acres to remain profitable. However, at some point you need additional labor and possibly equipment. We find ourselves competing with employers in town at a time when unemployment is low and wages and benefits are attractive.

I did not expect to get rich farming. But I did expect to have a decent standard of living. Today, I see my college-friends doing well in their careers. They have 40-hour weeks, retirement plans and health-care packages. They are buying homes, cars and have a sense of financial security. I see my prices going down, input costs going up and equity evaporating. At what point do you become a fool to continue?

Empowering Producers to Restore Profitability

This nation has been blessed with a climate and natural resource base that allow us to feed our population and much of the world. Our farmers have access to the latest technology—technology that is further improving the efficiency and safety of our food supply. Yet, it is disheartening to see some of nation's brightest children avoid returning to the farm. Today, given the weakness of the US farm economy, many parents are discouraging their children from returning to the farm—some of which have been in the family for generations. Think about it. We don't see recruiters at colleges lining up students to return to farming.

There is no single action that will brighten the future of the family farm, but I would encourage Congress to consider actions that collectively could stem the tide from rural America.

- Tax incentives—State and federal tax codes punish farmers with estates and capital gains, forcing older farmers to retain land. And farmers are not currently able to deduct all of their health insurance premiums. Policy-makers need to think "outside the box" for ways to use the tax code to assist farmers. For example, many farmers or their spouses are forced to work at least part-time off-farm. Is there any way to provide a tax credit for a portion of this income?

- Adding Value to Commodities—Missouri now provides farmers with a tax credit for participating in cooperative efforts that add value to agricultural commodities. This provides an excellent example of how we can move towards selling products rather than commodities, enabling producers to capture a greater share of the consumer food dollar.

- Federal Loan Programs—The Farm Service Agency (FSA) operates several direct and loan guarantee programs that can be very helpful to farmers. Consolidation in the banking industry is reshaping the relationships which many farmers have with their rural banks. While the personnel might survive a merger or acquisition, the familiar loan officer may no longer have the authority to make decisions regarding my credit needs. And excessive paperwork and reporting requirements may be preventing rural banks from participating in federal assistance programs. To this end, it would be helpful for Congress to review the requirements placed upon banks to participate in, and utilize, FSA loan programs.

- Risk Management—Congressional actions to revise the federal crop insurance program are absolutely critical. The current program simply does not work and has resulted in farmers' reliance on ad hoc disaster assistance. As a farmer, I would rather have access to markets than a disaster payment. For example, under the package recently passed by Congress, I will receive $4.70 per acre. This money would be better spent to help develop markets for producers of every size.

Yet our future doesn't rely solely on the actions of government. Commodity and farm organizations, such as Farm Bureau, operate many programs to develop young leaders. For example, there are collegiate Farm Bureau chapters at five Missouri universities and Farm Bureau's Young Farmer and Rancher program continues to grow in size. The interaction provided at these activities is essential, providing a forum to share ideas and experiences with other young farm families.

Mr. Chairman, I spend quite a bit of time in the cab of a tractor thinking about the future. I continue to dream of taking over the family farm. But my fear is that continued low farm income will force many young producers to take advantage of opportunities off the farm. From where I sit, I hope it doesn't come to that.

**Testimony of Steven Gross**

**on Behalf of the Pennsylvania Farm Bureau**

**before the United States House Small Business**

**Sub-Committees on Empowerment & Rural Enterprises**

**Regarding "The Aging of Agriculture: Empowering Young**

**Producers to Grow for the Future"**

**November 3, 1999**

Good afternoon, my name is Steven H. Gross Jr. I appreciate the opportunity to testify before you today on behalf of young farmers and ranchers all across the country regarding empowering young producers to grow for the future. I am a 31 year-old livestock and grain farmer from southern Pennsylvania in York County. My wife and I are in partnership with my parents. We farm 1,200 acres with 700 head of cattle and 300 hogs. We also operate a small butcher-shop where we sell our own meat and other produce, much of which is grown by our neighbors. In looking at the many challenges we face as young producers today in agriculture, I believe I not only speak for myself, but all young farmers in America today. As a member of the Pennsylvania Farm Bureau Young Farmer and Rancher Committee, I have met many other young producers from across our state and nation, and there are some very common concerns we all share regarding our ability to remain in the industry.

Production agriculture is an increasingly competitive business in which profit margins are tight and recently seem to be nonexistent. As a young producer, I try to continue to have a positive outlook in anticipation of our current marketing problems coming to past. However, there are many opportunities for Washington to help us manage through these difficult times and provide better opportunities for young agricultural producers to enter the industry and remain viable.

<u>Tax Relief</u>

A primary issue that always comes to mind is the need to eliminate estate taxes. Estate tax law is complex and planning requires the advice of experts which comes with a high price tag. It all seems so unfair. My family and I have worked hard to build our operation into what it is today, the core financial base for our families. We paid taxes on everything we've earned and we don't understand why we have to pay again when we die. We can't comprehend why the government wants to penalize us for being successful by taking a large chunk of our farm assets at death. It is the next generation of farmers that pays the price for helping to improve the value of the family farm operation, and often that price can be the end of the family farm. We believe that our family, our community and the environment will all be better off if our farm continues.

The potential impact of estate taxes on the future of American agriculture is enormous. Individuals, family partnerships or family corporations own ninety-nine percent of U.S. farms. About half of farm and ranch operators are 55 years or older and are approaching the time when they will transfer their farms and ranches to their children. I, along with all young farmers, and the Farm Bureau, support an immediate end to death taxes. In fact, death tax elimination is Farm Bureau's top tax priority. Farm Bureau is actively working for passage of H.R 8, legislation to eliminate death taxes by reducing rates 5 percent a year until the tax is gone. I urge each of you to join in the effort to eliminate death taxes.

Like other small business, farmers and ranchers have predictable expenses. Each month we must pay for fuel, animal feed, equipment repairs, building maintenance, insurance, utilities, and meet a payroll. We must plan for seasonal expenses like taxes, seed, heat, and fertilizer. We must also budget for major purchases like equipment, land and buildings. What makes us different than other small businesses is that, while many expenses can be predicted and to some degree controlled, farm income is neither predictable nor controllable. The prices that farmers and ranchers receive for our commodities are determined by forces that we can't control, commodity markets and the weather. Farmers and ranchers don't know from one year to the next if our businesses will earn a profit, break even, or operate in the red. Few other industries must face such a challenge year after year after year.

What all farmers hope for is that the good years will outnumber the bad ones. Believing that better times are coming, farmers and ranchers get through tough times by spending their retirement savings, borrowing money, refinancing debt, putting off capital improvements and lowering their standard of living. All of these activities damage the financial health of a farm or ranch and the well being of the family operating the business.

Unfortunately, the past two years have been very bad for much of production agriculture and many farms and ranches are operating under severe economic distress. This year, in Pennsylvania, drought has destroyed much of the fall's harvest and made feed for livestock more scarce. Other parts of the country were blessed with good crops, but faced low prices because of troubled overseas markets. 1999 is shaping up to be a yet another very difficult year for those of us who produce our nation's food and fiber.

Congress saved many farm and ranch businesses from bankruptcy with emergency aid provided by the FY 2000 appropriations bill. Farm Bureau is most appreciative of that aid but wants Congress to take steps to break the cycle. If emergencies are to be minimized in the future, farmers and ranchers must have new and innovative ways to deal with uncertain incomes caused by weather and markets. Congress must act to give producers the risk management tools they need to manage financial jeopardy caused by unpredictable weather and markets.

Farm Bureau supports the creation of Farm and Ranch Risk Management (FARRM ) Accounts to help farmers and ranchers manage risk though savings. Using Farm and Ranch Risk Management Accounts, agricultural producers would be encouraged to save money in good economic times for the ultimate lean economic years. I can't help thinking how different things would be now if FARRM accounts had been put on the books five years ago, and farmers and ranchers had FARRM savings to use this year.

FARRM accounts will encourage producers to save up to 20 percent of their net farm income by the benefit of deferring taxes on the income until the funds are withdrawn. The program is targeted at real farmers, contains guarantees that the funds will not be at risk, and prevents abuse by limiting how long savings could be in an account to five years.

Legislation to create FARRM accounts, H.R. 957, has been introduced by Reps. Kenny Hulshof and Karen Thurman. They've written their bill so that producers of all commodities, from all sizes of operations, who come from all parts of the country, can take advantage of FARRM accounts. That's the reason over 30 agricultural organizations and more than 150 representatives support the bill.

Capital gains taxes continue to cause a hardship on agricultural producers because farming is capital intensive and farming assets are held for long periods of time. According to USDA, agricultural assets total $1,140 billion with real estate accounting for 79 percent of the assets. Studies indicate that farmers and ranchers hold real estate assets for an average of 30 years with farmland increasing in value 5 to 6 times over that period.

For farmers and ranchers the capital gains tax is especially burdensome because it interferes with the sale of farm assets and causes business decisions to be made for tax reasons rather than business reasons. The result is the inefficient allocation of scarce capital resources, less net income for farmers and reduced competitiveness in international markets.

Farmers also need capital gains tax relief in order to ensure the cost and availability of investment capital. Most farmers and ranchers have limited sources of outside capital. It must come from internally generated funds or from borrowing from financial institutions. The capital gains tax reduces the supply of money available because lenders look closely at financial performance, including the impact of the capital gains tax on the profit-making ability of a business, when deciding loan eligibility.

In addition, capital gains taxes affect the ability of new farmers and ranchers to enter the industry and expand their operations. While many think of the capital gains tax as a tax on the seller, in reality it is a penalty on the buyer. Older farmers and ranchers are often reluctant to sell assets because they do not want to pay the capital gains taxes. Buyers must pay a premium to acquire assets in order to cover the taxes assessed on the seller. This higher cost of land hinders new and expanding farmers and ranchers.

Farm Bureau believes that capital gains taxes should not exist. Until repeal is possible, we support cutting the rate of taxation to no more than 15 percent. We also recommend passage of H.R. 1503 to expand the $500,000 capital gains exclusion for homes to include farmland.

The majority of farmers and ranchers are self-employed individuals who pay for their own health insurance. Because of the high cost of health insurance, many cannot afford high quality coverage or must go without health insurance. Even though corporations that provided health insurance for their employees can deduct premium costs, only 60 percent of the self-employed person's health insurance premiums are tax deductible in 1999. The deduction is scheduled to increase over time until it reaches 100 percent in 2003. Farm Bureau supports the immediate full deductibility of health insurance premiums paid by the self-employed.

__Financial Assets__

Agriculture must work to help young men and women who are interested in farming and ranching get started. Agriculture is not a cheap venture. The purchase of farmland and equipment is very capital intensive. Beginning farmers and ranchers need resources available to get started.

We hope that the committee will look at programs like the "aggie bond" and other ways of opening up doors for beginning farmers and ranchers. Producers, including beginning farmers and ranchers, need a variety of credit sources at the lowest possible interest rates. The credit sources should be designed to give farmers and ranchers the needed opportunity to build equity for their operation.

The aggie bond provides an opportunity for beginning farmers and ranchers to receive low interest loans below market interest rates. The responsibility for this program is not solely on USDA's Farm Service Agency but is shared through a linkage of federal, state and industry cooperation.

The program enables lenders to receive federally tax-exempt interest on loans made to beginning farmers and ranchers. The lender arranges the loan and purchases from the state development authority a federally tax-exempt private activity bond in the amount of the loan. The state development authority loans the proceeds of that bond to the beginning farmer and the loans and its collateral are assigned to the lender as security for the tax-exempt bond.

**Regulatory Issues**

As a younger member of the farming community and an individual now only beginning to invest in the business of food production, I need to be assured that I will not be regulated out of business. Environmental, labor, and food safety regulations continue to threaten my ability to compete with the world market I must face. Perhaps one of the clearest examples of government regulation that threatens the future of production agriculture in this country is the implementation of the Food Quality Protection Act by EPA. An unscientific approach by EPA threatens the use of safe crop protection tools that I depend on being available to me when I need them. Starting out in farming is not an inexpensive undertaking. It involves, as you all know, a substantial amount of investment and risk. My creditors are relying on me to produce a product that has value so that I can repay them.

I plan to farm for years to come. I also plan to support my family and supply consumers with safe and affordable products. But without a thorough scientific approach taken by EPA, losses in crop protectants available to producers today will be unjustified and have the potential to cause severe harm to many in agriculture with no increase in consumer safety. As for children's safety, my wife and I shop at the same grocery stores and serve to our children the same foods non-farmers buy. Our food supply is safe and our ability to produce the safest, most abundant and affordable food on earth is unequaled. Our regulatory system is the most rigorous in the world, but we cannot allow it to force our nation to become increasingly dependent on foreign food supplies that may be less safe because government regulation has made domestic food supplies economically uncompetitive .

**Farmland Preservation**

Pennsylvania Farm Bureau strongly supports any Congressional efforts to increase federal appropriations to state-administered farmland preservation programs for purchases of agricultural conservation easements on farms. However, the primary objective of farmland preservation programs should not just be to preserve land. It should be to preserve farming businesses and maintain those characteristics which will assure the continued economic viability of farming businesses in the future.

Farmers see a real value in the preservation of their farm and farming business for future generations. Farmers want to see their children continue the farming business, or if not their children, individuals in succeeding generations who are as committed in continuing and improving the farm business operation as they are. The reduction in the residual market value of the farm which results from a sale of an ag conservation easement makes it much easier for farms to be transferred to succeeding generations without placing the recipient of the farm in prohibitive debt. Since succeeding generations will not be incurring such a debt load when they receive the farm, they will be better able to viably operate the farm, which will better ensure that the legacy of the farming business began by farm families or their ancestors will live on.

Pennsylvania's farmland preservation program has been a successful one, but it has not been a small investment. Nearly $265 million of state and county monies have been spent in purchasing ag conservation easements. Still, for numerous counties, the number of farms that counties have determined to be worthy of preservation substantially exceed the number of farms whose easements counties are able to purchase with available funds. Insufficient funding has created a waiting list of more than 1500 farmers willing to sell ag conservation easements to another 100,000 acres of farmland. Even with Pennsylvania's success in farmland preservation, much more needs to be done to not only preserve farmland but to preserve the economic integrity of viable agricultural areas.

From 1996 through 1998, Pennsylvania's program has received approximately $2.25 million in federal monies for use in state ag conservation easement purchases. Although federal funds provided for the program are small, when compared with the amount of state and county monies committed, federal funding has been a help in stretching the program's purchasing dollar. Based on these purchases alone, federal funding has allowed the Commonwealth to preserve an additional 1262 acres.

Pennsylvania continues to search for ways to fund the farmland preservation program. Since July 1993, the state has instituted a 1% cigarette sales tax which has generated approximately $120.6 million committed for use in ag conservation easement purchases. Most recently, our legislature has appropriated $43 million for use in easement purchases during this coming fiscal year. This will relieve some of the backlog of worthy easement purchases which has been recently experienced in a number of counties.

Pennsylvania's farmland preservation program has sustained strong public support for the 12 years that state funding has been provided. Rural and nonrural citizens have appreciated what the state program provides to the economic welfare of agriculture, the preservation of viable agricultural areas, and the conservation of the Commonwealth's natural resources.

**Trade Issues**

When Congress passed the 1996 Freedom to Farm Act, it phased out farm price supports, making U.S. agriculture more dependent on the world market. American farmers and ranchers produce an abundant supply of commodities far in excess of domestic needs and their productivity continues to increase. Exports are agriculture's source of future growth in sales and income.

As I indicated earlier in my testimony, U.S. agriculture is reeling from low commodity prices. Given an abundant domestic supply and a stable U.S. population rate, the job of expanding existing market access and opening new export markets for agriculture is more important than ever. Global food demand is expanding rapidly and more than 95 percent of the world's consumers live outside U.S. borders. Despite significant progress in opening U.S. markets, agriculture remains one of the most protected and subsidized sectors of the world economy. In addition, U.S. agricultural producers are placed at a competitive disadvantage due to the growing number of regional trade agreements among our competitors. Agriculture's longstanding history of a balance of trade surplus will not continue if we are relegated to the sidelines as new negotiations in agriculture commence.

The Farm Bureau supports expediting action on the next round for agriculture in the WTO. Our market is the most open in the world. We cannot sit idly by while our competitors trade openly in our market, but deny us access to their markets on equal terms. We must begin the negotiations and conclude them as early as possible to put U.S. agricultural producers on a level playing field with the rest of the world.

Farm Bureau supports a single undertaking for the next round wherein all negotiations conclude simultaneously. This format would prevent other countries from leaving the difficult agricultural negotiations until the bitter end while cherry picking the easier negotiations in other sectors. We are very concerned that the current administration will use an "early harvest" approach in the WTO negotiations and agriculture will once again pay the price for being negotiated after all other deals have been made. We must have more free trade if production agriculture is to continue to grow and thrive. However, without fair trading practices more and more producers will become victims of our trade agreements rather than beneficiaries.

**Statement to the**
**The Subcommittee of Empowerment and**
**the Subcommittee on Rural Enterprises, Business Opportunities**
**and**
**Special Small Business Problems**
**REGARDING**
**THE AGING OF AGRICULTURE, EMPOWERING YOUNG PRODUCERS TO GROW FOR THE FUTURE**

**Presented by**
**Bruce B. Cobb**
**ARC Greenhouses**

**November 3, 1999**

## A. Our Farm

We operate a small farm. This years revenues will be between 1 and 1.5 million. We grow some 20 varieties of herbs and 24 varieties ofspecialty lettuces. We grow these products in greenhouses using recirculating hydroponic systems. The benefits of this type of growing include:

We grow in a protected environment. We supplement lower sunlight winter days by lighting our crops. Therefore, we grow the same high quality product all year so the chefs and homemakers who use our produce can be assured of consistent, high quality every week of the year; We grow on a schedule that permits us to harvest daily. Therefore, our product is picked fresh to fill that day's orders; we recirculate our nutrient solution. Therefore, we do not have any negative impact on the environment in terms of nutrient runoff; and We take great pains to keep pests out of the greenhouse and the greenhouses are clean. Therefore, we do not have the same problem with pest management as farmers who grow outside. Our business philosophy is to be a consistent supplier of high quality product that we grow our selves. Our customers buy from us because they know they are obtaining the same high quality every day of the year. We are very pleased to have chefs in many high quality restaurants that want to cook using only our herbs. They buy not because they know us personally, in most cases we have never seen each other. They buy because they know they are getting consistent high quality.

We employ a tremendous amount of technology in our growing methods. We have to move millions of gallons of water every day. We have to heat two acres. We have to light two acres. We have to cool two acres. The list goes on and on. We generate most of our own electricity using small co-generation units. The co-generation units are cost efficient for our operation because we need both hot water to heat and electrity to light our greenhouses. We use hundreds of computers that we have designed and built to control every facet of our operation. Technology is very important to us. My father's main interest is the technology since his objective is to prefect the technology so it moves from the laboratories to the real world on a large scale so that recirculating systems become economically feasible for farmers all over the world. Our intensive methods permit a high quantity of food to be produced in a small area. For example, in our two acres of greenhouses we grow the same quantity of produce that 23 acres of prime land in the Imperial Valley is able to produce.

**B. Questions**

As I understand it you want my point of view on the following questions:

Why are more young people not attracted to Agriculture?
What can be done to attract more young people to agriculture?
What can be done to help young people to be successful once they decide to enter agriculture?

**C. Economics Retard Young People From Entering Traditional Agriculture**

The ultimate consideration that a person makes when deciding to start a business is will the opportunity provide above average returns for the investment in dollars and sweat equity. In most cases the answer is that farming, as many people perceive it, does not provide a good opportunity. The typical business model for farming today is that you buy or lease some land, buy a tractor and other equipment and then raise animals or crops for someone else to package, market and sell. In other words, a farmer raises a commodity that he/she sells at the price the marketer decides is attractive so the marketer can make their target margin. The marketer can always find someone either in this country or abroad who is willing to take something less. Therefore, the average price is driven down to a level that does not provide good margins to the farmer year after year. In other words, on the average, commodity farming is a marginal business.

I was talking to a farmer last week that raises some commodity products. If he was to sell one acre of his land and invest the proceeds his return would be at least $400/year. He is a very good farmer and his gross revenue from growing and selling commodities from one acre is only $360/year. Between these two alternates the wise choice is to sell and use the money to invest somewhere else.

Therefore, young people who decide not to enter that type of business are making a wise decision.

**D. Attracting More Entrepreneurs To Agriculture**

If more people had a higher regard for agriculture then a higher percentage of entrepreneurs would go into agriculture. Young people do start farms. Young people do start software companies. Both businesses are hard and require brains, motivation, luck and ability. The reason more people are attracted to software is that software is thought to be more intellectually demanding; therefore, it is more attractive to those people that have the attributes to start and run a business.

It is a communications problem to alert people of the opportunities for combining agriculture production with the development of market channels. The government can use its bully pulpit to help with this communications problem.

All new businesses require capital. It takes convincing people to obtain capital. That means the people with money must be convinced that the entrepreneur can deliver on his/her dream. People who want to engage in traditional agriculture have a hard time raising capital because they are trying to finance a business that does not have a great outlook for large returns. That is why people trying to start a traditional farm have to resort to borrowing money and thus having a fragile, underfinanced business. Creating a business with borrowed money is a very risky way to proceed.

I think the elimination of inheritance taxes would help create a much better climate for investment in agriculture. It is my hypothesis that currently the largest source of capital for farming entrepreneurs are family funds. These funds are typically provided in some way that eventually is effected by inheritance taxes. Therefore, one positive thing the government can do to promote farming entrepreneurship is to eliminate inheritance taxes. In a few years it would move capital to younger people who can build on what is already in existence. This may the single most important tangible step the government could take to promote agriculture entrepreneurship.

In my case our farm belongs to my parents even though I operate the farm on a daily basis. In operating the farm I am increasing the value through my sweat equity. I expect to get the farm when my parents die. My situation is not unique. Recently I had the opportunity to participate in a two year leadership program for young farmers in New Jersey. In my class, many are in the same financial situation as I am in with my parents. In my case, my parents have taken out a life insurance policy that will pay the death taxes so I will get the farm provided they continue to be able to pay the premium. Others are not so lucky.

The federal government may need the money provided by inheritance taxes but it is just unfair to take money in this way and makes no economic sense. Either the government should reduce spending or find a fairer way to finance its activities. Farms become increasing productive based on continued investment. In many cases investments in farms must begin anew with each new generation because farms are sold in advance of death or to pay inheritance taxes. If farming ventures had a long term future then investments could be made for the long term. If you want to really promote agriculture entrepreneurship then only eliminate inheritance taxes on farms. This will have all sorts of families investing money in agriculture.

**E. Increasing The Success Rate Of Agriculture Entrepreneurs**

I do not think there is a silver bullet for making entrepreneurs successful. There is nothing different between creating a successful business in agriculture, software, trucking, etc. A discussion of what the government can do to help entrepreneurs be successful is beyond the scope of this five minutes but I do have one concrete suggestion which I will make at the end of the paper that I think can have an enormous impact on increasing the rate of successful entrepreneurship in agriculture.

**F. What can the federal Government do right now to help us?**

I would like to bring up two topics where I think the government can provide farmers like us with significant help right now. The two topics fall in the area of labor and product labeling.

**LABOR**: Our biggest current problem where the government has an enormous impact is labor. We employ a great amount of technology but we still employ some people, currently we have 32 people, some of whom are part time. We have several problems with our labor force that are caused by the Federal Government.

**Social Security Earnings Test:** We employ several older people who are also drawing social security. They want to work because it is fun, they want to be productive, they want the money, they want the satisfaction of doing something of importance. But they feel cheated when they pay a high rate of tax on their social security income. At this time of the year when they are worried about making too much they become down right upset. Eliminating the means test would do a great deal of good for them and I assume all other older Americans who want to work.

**INS:** We employ people who show up when we run an ad that satisfy three conditions:
they have a creditable employment history and do not appear to be on drugs, after seeing the work we have to offer they say they would like to work with us, and they provide the proper I-9 credentials.

We then keep the people who want to stay and who put in a fair days work. We believe we have superior working conditions over field growers. Currently many of our workers are of Mexican decent. We have some we are sure who are citizens or have valid green cards. We have others who we are not so sure that they are legal. The traits all these workers have in common are: the identification papers appear correct, many own their own homes, some of them have been working with us for 4 or more years, and they all work hard and take pride in their work and they want to move up.

What is our problem? We do every thing we are suppose to do but we still live in fear of an INS raid that will certainly disrupt our operation even if there is no illegal persons in our employ. No one wants to lined up against the wall and quizzed. On the other hand if we suspect someone may be illegal and we dismiss them we are in jeopardy of a wrongful discharge suit. We are not sure what to do. We believe that the government should have regulations that permit us to develop a strong reliable work force free of all fear as long as we doing everything according to the law. What do we want from our labor force? We want them to be reliable, motivated, willing to work, not on drugs, etc. Right now about the only people who want to work on the farm are people who seem to be of Mexican descent. No one else applies. Please get regulations that remove the uncertainty!

**Minimum Wage:** We are sure you all understand that by raising the minimum wage that you will reduce the number of jobs available for low skilled people. Minimum wage jobs should not be a way of life, they are an opportunity. In fact , three people that started with us at minimum wage 5-6 years ago are now on their way to becoming US citizens and are now making a considerable amount more than minimum wage.

That's what minimum wages jobs do. They give people an opportunity to "pull themselves up by their bootstraps". As an employer I do not expect our workers to stay around forever , In fact we encourage them to move up to the next level. The main reason there will be fewer under skilled jobs as the minimum wage increases is because as the cost of labor increases it is better for us and other employers to increase the amount of automation we devote to replacing labor with capital. We have been successful in doing that because currently we employee about the same amount of unskilled labor as we did when we were half the size. As a result of the forthcoming increase in the minimum wage we are now in the process of designing a new packing operation that requires fewer unskilled labors. We must do that to maintain our profits. The only people who will be hurt by the increase of the minimum wage are the people with low skills that want a chance to work to develop their skills so they can move on up. Society is the big winner when people are able to move on up.

**Wage Taxes:** It seems to us young people just entering the work force need money to buy a car, house, etc. They need to get ahead of payments. The 15% wage tax is a very big bite right off the top of their earnings. Why not use the social security over charge or what government types now call a surplus to offer wage tax relief? Social Security was designed to be a pay as you go program so the over charges are being loaned to the Treasury to be spent on other things or transfer the debt from investors to the Social Security Administration. In either way the debt must eventually be repaid from general revenues.

Rather than using the over charges on the social security program why not reduce the over charge and let the people who are paying the charge use the money to make a better life for them selves. Some modification of this type would do a great deal to help our employees. On the whole we have a young work force from college graduates, to high school graduates, high school drop outs and immigrants. The faster they are able to put down strong roots in our community the better we will all be. 15% off the top is a big impediment to putting down roots.

**PRODUCT LABELING:** As you all ready understand we want to establish a relationship with our customers. We want our customers to know what they are buying: where and how it was grown. We think the best thing other farmers can do is stop thinking about growing a commodity and start growing a product that has their name on it. We think the Federal government can help both the farmers and consumers by improving labeling requirements. Ideally what we would like to see each package of food offered for sale contain the name and address of the farmer who grew the product and the name of the person who packed the product.

Short of that we would like to see real truth in labeling where a person who packs the product cannot imply they also grew the product. For example, today if you go into the super market and read the label on a package of fresh herbs you will get the impression the herbs were grown at the packer's farms in California, Florida or Virginia instead of being shipped in from Israel and repackaged in California, Florida or Virginia. We think the consumer has the right to know where the produce they buy was grown and by whom.

Product labeling will help with the negative effects the newly enacted Food Quality Protection Act will have on the US farmer. The FQPA regulations will not be effective outside of the US. Farmers in other countries will still be able to use these pesticides. Business that market crops in the US will simply buy cheaper foreign product. Both the US farmer and the consumers will lose. For example, consumers will buy the lettuce thinking they are getting lettuce grown by US standards so it is free of these illegal pesticides. The result will be consumers paying more for the product they do not want. Our labeling suggestion will make this impossible.

Product labeling will:

- Help farmers with the costs associated with FQPA;
- Promotes free trade;
- Educate consumers; and
- Let the marketplace push down pesticide use.

**Not expensive regulations:** Increase opportunities for entrepreneurs and attract investment in US agriculture. Give farmers the help they need in moving from a commodity to a brand name. Give farmers the power to fight the large corporations that control the retail food distribution in this country. Not be perceived as a protectionist act Not be expensive regulation for distributors to comply with Product labeling will benefit all farmers and all consumers. Product labeling will release a wave of farming entrepreneurship.

Thank you very much for the opportunity to share my beliefs.

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Return to Hearing Summary

Return to Home Page of House Small Business Committee

**The United States House of Representatives**
**Committee on Small Business**
**2361 Rayburn House Office Building**
**Washington, DC 20515**
**Phone: (202) 225-5821 Fax: (202) 225-3587**
**Email:**

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Testimony of Baron Johnson

Before the United States House Small Business

Sub-Committees on Empowerment & Rural Enterprises

Regarding "The Aging of Agriculture: Empowering Young Producers to Grow for the Future"

November 3, 1999

Good afternoon, my name is Baron Johnson. I want to thank you, especially my Congressman, Jim DeMint, for this opportunity to appear before you today. I am a peach, apple, and small fruits grower from upstate South Carolina, located between Atlanta, Georgia and Charlotte, North Carolina. I am a fourth generation peach farmer, but we have found it increasingly difficult to keep on doing what my family has done for so many years. Because it is more difficult to commercially farm peaches, I am attempting to diversify by trying to start a small berry farm with blueberries, blackberries, and raspberries. I farm peaches and apples with my family full time and farm my berries at nights and on weekends. My comments today are developed with my particular farming expertise in mind, however, discussions with other young people interested in agriculture indicate similar problems.

A farm is just like any business with inputs and outputs. In order to stay in business the cash coming in must exceed the expenses. With peaches, the cost of all inputs has gone up consistently year after year, however, what the farmer gets back for his crop has not gone up in years, as many as fifteen to twenty years. The cost of land, equipment, labor, and chemicals has continued to increase over the years making it is virtually impossible to start a new farm from nothing. Unfortunately, many of these expense increases are not just "inflation", but are caused by government action. I hope I can shed some light problems that young farmers are facing and how you might be able to help.

It's often said to get into farming you either have to be born into it, marry into it, or inherit it. Some of the items that you will hear about today will indicate that even those methods are more difficult than you might imagine. A young person coming out of high school or college wanting to start farming probably has no collateral to put down on a loan. So getting a loan at all or at a decent interest rate becomes a problem. I am paying 10% and 15% interest on a line of credit and loan, which makes it hard to pay anything toward principle to start getting out of debt. Because it takes three to five years to get a good first crop, you have to have a second job that can sustain you for the first three to five years when you have zero cash flow in and lots of cash flow out. In the fruit business we have found that you must start out extremely small. However, in many of our row crop operations the razor thin profit margins have accelerated the trend for those farms to become larger to take advantage of the economies of scale. This trend helps to lower to cost of production and helps consumers, but makes it even more difficult for young farmers to get started.

I would divide the assistance that Washington could provide to help young farmers get started into the areas of finance, business planning, reducing cost and marketing. The area of finance can be broken down into two sub categories of tax relief and credit. As I mentioned, young farmers have very little to help them start a farming operation. Access to capital is difficult for young people and even more difficult in rural areas. Programs that support increasing the variety and sources of capital at low interest rates are important. Programs such as "aggie" bonds are good starting points. The other financial area is taxes. Estate taxes and capital gains are important because of their impact on the sale and transfer of land and other assets. The current system encourages decisions to be made for tax purposes and not for sound business reasons.

Business planning continues to be a major area that young farmers will need assistance. The Cooperative Extension Service and other education institutions provide a valuable service. These need to be expanded to encourage more business planning.

The next area is reducing cost. It is amazing the cost that our operation encounters every day that is the result of government action. Regulations on labor, food safety and environmental protection often add cost without adding any added benefits. We currently face losing many of our most valuable crop protection materials not because it will improve food safety, but because the implementation of the Food Quality Protection Act is being implemented by a federal agency that refuses to use sound science.

Our operation is especially sensitive to labor issues. We produce a crop that is extremely labor intensive. We also live in an area that has a low unemployment rate. Programs that help us gain access to additional labor supplies are extremely valuable.

The fourth area I mentioned is assistance in marketing. This could take several forms. Mentioned before was the trend for farms to become larger. One of the major reasons for this trend is the consolidation in the other sectors of the food supply chain. In order to deal with a large broker or grocery chain, the grower has to be large or be part of a larger group. Congress should continue to work toward leveling the playing field between farmers and the retailers and processors that buy their products.

The agricultural economy is also increasingly dependent on world markets and international trade. Unfortunately, the playing field is definitely not level in this area. Agriculture has often not gotten a fair shake during trade negotiations and the United States seems reluctant to enforce our agricultural trade agreements. We need to take a strong position for agriculture at the up coming trade negotiations and demand better trade agreements.

Let me close with a few comments that I know because I live them every day. In commercial peach packing the broker, freight company, grocery store warehouse, and grocery store all make money. Why can the farmer not make a profit? The gap is too big between what the farmer gets and what the grocery store gets. For instance, if the grocery store is asking $1.59/lb, that equals $40 per box. The farmer would probably get between .40-.45 cents per pound for those same peaches, $10 per box. Most other countries spend 30-60% of their disposable income on food and we spend 10-12%. The farmer has got to be able to grow his product, manage his farm, and realize a profit in the end and it just is not happening. Federal, state and local governments compound the frustration that farmers feel by providing "incentives" for other business to locate next to our farm, drive up land prices, but would not consider the same incentive package for the start up of a small agricultural business.

The bottom line to getting young people into agriculture comes down to making a profit. If young people can not find a way to make a profit in agriculture, they will have to find other professions. The net result will be the loss of thousands of small businesses and no young people replacing these lost farmers. If this continues to happen, we will be importing more and more of our food from source of unknown origin and unknown production practices.

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**TESTIMONY GARY W. SMITH**
**November 3, 1999**

Good afternoon Chairman Pitts, Chairman of the Subcommittee on Empowerment and Chairman LoBiondo, Chairman of the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems and members of the subcommittees.

My name is Gary W. Smith, I am Executive Director of the Chester County Development Council, a private not-for-profit economic development organization that has served the business and economic needs of Chester County, Pennsylvania for the past 40 years. I have been privileged to serve as Executive Director for nearly 24 of those years. During my tenure, I have watched the expansion of the corporate community in our County and the creation of wealth with various capital investments throughout Chester County, and I have become chagrined that economic development as a profession often fails to consider agricultural development as integral to our economy.

On a personal note, I was born and raised on and still operate a 111-acre family farm in West Bradford Township, Chester County. My father was a first generation dairy farmer who successfully managed a herd of registered Holstein cattle for a many years until his passing 14 years ago. Since then, I have managed and operated a registered herd of Poll Herefords with nearly 50 animals and have raised crops and hay on the farm, and have continued to be very active in the agricultural community. I have been involved in creating and sitting on many boards of agricultural organizations that support the enhancement of the profession of farming within the suburban market place.

Without being too self-assumed, I do have some unique experiences to draw on since I work with both the economic development and agricultural communities on a daily basis. I am truly able to bring certain perspectives to this committee since I have a real passion and commitment about how economic development and agricultural preservation need to be incorporated into a seamless process. In managing the affairs of our private not-for-profit organization, which employs 12 staff members with an annual operating budget of over $1 million (that is generated exclusively by private sector support), I have observed that our profession in the general sense of the word provides an abundance of economic development services to a wide array of companies that are dotted across our landscape. Unfortunately, agriculture has been perceived merely as open space within the growing suburban community. Many public policy makers have established sound preservation programs in order to preserve open space, i.e. farming. However, no one is paying much attention to preserving the occupation, the livelihood or the professional development of the farmer.

Chairman Pitts has shown tremendous leadership capabilities, as an ally of farming, particularly in the area of the state planning reforms that minimize inheritance taxes which have been imposed upon passing on our family farms. This has been a significant step in the right direction toward maintaining stability and continuity to efforts that preserve the family farms.

Farming is a business. I emphasize; farming is a business. It is a business-without-walls, unlike the corner gas station or office building or industrial factory. It functions as an economic unit within itself, with certain fixed costs as well as variable costs that are beyond the farm entrepreneur's control. We need to enhance a delivery system in this country that is more attuned to helping the farmer with technological improvements with production improvements and with succession planning as a consequence. We in Chester County propose to establish an agricultural development council initiative, as our response to this need.

Since I have been personally burdened with farming issues for many years, I have attempted to create new loan initiatives especially for Pennsylvania farmers. I currently administer over 26 different low cost loan programs for certain types of business and industries throughout our service area. No loan programs are available for farmers. With this in mind, I became aware of existing federal legislation, and also that Pennsylvania needed to be convinced to establish policies to utilize this federal legislation to our advantage. I began writing editorials in farm journals to get the attention of the Ridge Administration and to its credit, unlike the three previous administrations which had deaf ears to farming in Pennsylvania, the Ridge Administration was truly open minded. It invited me to come in to convince senior policy makers what was actually needed without expending any new dollars or creating new legislation. What was required was a mere change of policy. Now, Pennsylvanians are proud to offer the Next Generation Farm Loan Program, which is being marketed across the Commonwealth, and I am proud to say we have many farm projects being financed in Pennsylvania through this new program. However we need to enhance existing loan services and create additional loan programs, that are essential to support certain types of farming enterprises.

I am a member of the National Association of State Agricultural Loan Programs. I draw concepts from experiences in other states, which I want to bring to Pennsylvania and I also want to enhance and grow our financing service capabilities not just for first time farmers, but for all farmers. However, we need other technical and professional development services that complement the loan programs. We are proposing many new initiatives in Chester County, which would function like a center for economic development services to the farm community.

Allow me to update you on farming as we experience it:
Farming is the #1 industry of Pennsylvania. Agriculture in southeast Pennsylvania where Chester County is located, is tremendously productive growing 42% of the states market value on just 23% of the state's farms and 16% of the state's farmland. Chester County is #2 in agriculture production (after Lancaster County also part of Congressman Pitts' constituency). Our principal farm crops of livestock, mushrooms, dairy products and cash grains are extremely diverse and eminently marketable. Unfortunately, Chester County (as well as Pennsylvania as a whole) has twice as many farm operators over the age of 70 as

under the age of 35. Chester County's farms cover almost 175, 363 acres or about 36.2% of the total land area of the county. Chester County farming amassed over $342 million in total sales revenues during the period 1992-97 according to the USDA. Despite the importance of agriculture in the region, we are losing farms and farmlands at an alarming rate. From 1960 to 1992, the region lost 28% of its farms, and total farm acreage declined 21%. Chester County lost 44,617 acres of farmland (8 acres a day) from 1982 to 1997.

Its clear that a set of interrelated barriers are at work to adversely affect the viability of agriculture. They include:

1. The shortage of beginning farmers to replace incipient retirees.
2. The increasing valuation of farmlands for non-agricultural purposes.
3. The increasing inability of farmers to access attractive low interest guaranteed loans.
4. Difficulties with intergenerational farm transfer, and
5. The decline in beginning farmers with the technical knowledge to succeed economically and commercially.

Given the state of farming in Chester County and throughout Pennsylvania, I offer the following sets of recommendations which fall in three (3) groups: loan issues, farm succession issues, and beginning farmer skills issues.

First the loan issues:

**Loan Issues**

1. **Expand funding for Guaranteed Loan Programs**
   It wasn't long ago that the Farmers Home Administration, now the Farm Service Agency, shifted its focus from inefficient and costly direct lending to more efficient loan guarantee programs. Unfortunately, the program is grossly underfunded – funding increases have not kept up with demand. These loan guarantee programs are especially suited to beginning and young farmers. Please increase the allocations for these funds.

2. **Permit Farm Service Agency Guarantees on Aggie Bonds**
   Change Federal tax law to allow Farm Service Agencies and other loan providers to guarantee loans used by beginning farmers in the Aggie Bond program. Current tax law disallows federal loan guarantees on the tax-exempt aggie bonds. This results in higher-than-necessary interest costs to young farmers. I recommend that the loan guarantee and aggie bond programs be combined, thus reducing the risk of default by reducing interest rates on Aggie Bonds.

3. **Exempt Aggie Bonds from the Volume Cap on Industrial Revenue Bonds**
   Aggie Bonds are efficient, public/private partnerships that create reduced interest rate financing for beginning farmers. Rates are typically 2% below conventional rates. The rub is that aggie bond availability is severely limited by the volume cap on Industrial

Revenue Bonds. In Pennsylvania, and in other states, Industrial Revenue Bonds are used for manufacturing projects – leaving no revenues for Aggie Bonds. Young farmers using Aggie Bonds typically pay a modest service fee to the state bond issuer to cover operating expenses; while lenders (local banks) receive federally tax-exempt interest income from the bonds, passing along savings as reduced rates. Aggie Bonds are great for beginning farmers, with no federal administrative cost. Legislation to exempt aggie bonds from the volume cap on Industrial Revenue Bonds makes sense. Legislation to accomplish this has been introduced in the current Congress as HR 1810 and S1038. It should be passed

**Farm Succession Issues**

1. **Provide Concerted Assistance to Retiring Farmers to Facilitate Transfer of Farms.**
As a recent survey of retiring farmers in Chester County revealed, incipient retirees start the transfer process late in their careers, fail to comprehend all the options available to them, and lack farm succession plans based on tried and true options and strategies. What should be happening is not. If farms were transferred to eager beginning farmers in a carefully planned process, the economic and social deprivations that now occur would be attenuated and the rate of farmland loss would decrease substantially. Homebuilders seeking farmland to develop have their act together. Why doesn't the farm community have its act together? I suggest that your advisory committee look carefully at existing programs such as PA Farm Link's Passing on the Farm workshops which provide succession planning information to both retiring and beginning farmers that focuses on business planning, financing the young farmer, farmland preservation options, and estate and tax planning. The earlier farm succession planning starts, the better. We need to make expert financial advisors and accountants available to meet with farmers, begin the transfer process and develop clear understandings about: transferring assets, developing partnerships and preserving farmlands. I recommend that beginning farmers be integrally involved in the farm succession process early giving them 20-30 years to effectively plan the transfer of their farms.

2. **Encourage collaborations among farmland preservation organizations and agriculture development agencies that benefit beginning farmers**
In recent years, thousands of acres of valuable farmland across America have been set aside by well-meaning County and state governments in the name of farmland preservation. Some of the farmland, unfortunately, does not remain in agriculture. Instead, it becomes parkland, green corridors, so-called open space or even left fallow. There is a growing concern among farmers that, while such programs keep the land out of the hands of homebuilders and slows urbanization, it fails to promote farms – and it should! Let me use Chester County as an example. Ten (10) years ago, the county floated a $50 million bond issue that included protecting more than 15,000 acres in farmland preservation, mostly through the purchase of development rights on private farms. Lately, as the existing farmers retire, some of the land has

been purchased by municipalities and converted into parkland. While parkland is needed, it has been acquired at the expense of farming. I recommend that strong and far-reaching efforts be made to encourage and promote collaborations among farmland preservation organizations and agriculture development agencies at all levels to find ways that ensure that beginning farmers become integrally involved upfront in private decisions to reserve the land.

## Beginning Farmers Skills Issues

### 1. Sponsor Programs that Provide Beginning Farmers with Requisite Agricultural Skills

Skeptics in the farming community often decry the level of farming skills demonstrated by young farmers, especially beginners who have not benefited from university training. There is substantial credibility in the skeptics' criticism. Again, I'd like to dwell on what has been happening in Chester County. First, less than 50% of our farms transfer within families. And because our 1,500 farms are small (they averaged 126 acres in 1998) and sitting on expensive acreage, they are not prone to conglomeration by agribusiness. Accordingly, our best hope for farm succession lies in finding ways to enhance the skills of beginning farmers many of whom have not grown up on family farms or received agricultural education in high school. In fact Chester County's two secondary vocational education schools no longer provide agriculture education because of declining enrollments in those courses. The question for us (and for many other counties throughout America) is – where can our beginning farmers acquire adequate farming skills in order to succeed? I recommend that your advisory committee sponsor low-cost, high-interest, skills-acquisition programs for young farmers such as:

- Apprenticeship programs in sustainable agriculture, production farming, niche farming, and resources conservation design.
- Mentoring programs that both recruit new farmers and enhance long-term success prospects of beginning farmers.
- Marketing and entrepreneurial skill development meetings (such as those conducted by PA Farm Link) which are conducted by various local vested-interest organizations dealing with farming practices, financial skills and marketing strategies.

Today's beginning farmers need to know so much to succeed. Where university training and secondary school programs are lacking, agriculture development agencies and other organizations (in addition to the extension service) need to step forward to ensure that young farmers acquire appropriate skills. We can no longer leave this process to serendipity. I recommend that the USDA develop, sponsor, promulgate and fund locally administered and delivered programs that provide beginning farmers with requisite agricultural skills.

**2. Promote the adoption of high-technology applications to assist both retiring and beginning farmers in the transfer of farms.**

Agriculture (unlike banking and retail) has been relatively slow to exploit technology; especially electronic data linkages to improve the way business is done. I recommend that several electronic applications be examined, evaluated, and promoted throughout the agricultural community as "best practices" that assist both retiring and young farmers during the farm succession process. These high-technology applications should include:

- Database Linkage Services that link beginning and retiring landholders, both locally and nationally. When a farmer makes a decision to retire, he or she should be able to access the widest range of successors possible.
- Distance Learning Courses over the Internet on relevant issues such as technical management, marketing, and entrepreneurial skill development for farmers that can be accessed at the convenience of the farmers.
- A Resource Locator Service that provides one-on-one technical service to the young farmer so that applicable resources can be accessed as problems arise.

In conclusion, I contend that young farmers need to be encouraged to examine a range of succession strategies as they seek the continuance of their farm business. Strategies that consider less capital-intensive farming practices, more open communications among partners more marketing opportunities, more on-going skills acquisition, better low-interest guaranteed loans, farmland preservation strategies that keep the land in farming and exemplary business practices are pre-eminently successful.

Thank you for this opportunity and thanks so much for your commitment to the future of young farmers.

Honorable Members of the House of Representatives it is indeed an honor and a privilege to appear before you today. My name is John Baker. I am an Attorney and I work for Iowa State University Cooperative Extension Service. I am the Staff Attorney at Iowa Concern Hotline, an information and referral service maintained by Iowa Extension and I administer the Beginning Farmer Center. The Beginning Farmer Center was created by the Iowa Legislature in 1994 and charged with the responsibility, among other things, to discover ways to facilitate the entry of aspiring farmers into production agriculture. I have provided you with a copy of the legislation that created the Beginning Farmer Center and its most recent report to the Iowa Legislature. I also administer the Iowa Farm On project which links aspiring beginning farmers with existing farmers and landowners. Included in the written material is the Farm On brochure.

In addition to my duties at Cooperative Extension I serve as the Coordinator of the National Farm Transition Network. The National Farm Transition Network is made up of twenty individual organizations that are involved in the linking of aspiring beginning farmers with existing farmers and landowners. The member organizations of the Network include Universities, State Departments of Agriculture, for profit and non profit organizations. The purpose of the National Farm Transition Network is "Supporting programs that foster the next generation of farmers and ranchers." The Network has been in existence since 1991. I have provided you with a brochure listing the member organizations.

The most important question facing American farmers and ranchers today is whether or not there will be another generation of individually owned and operated farms and ranches. Some argue that the current economic crisis faced by farmers and ranchers is the critical issue. I would argue that when we solve this instant problem, and we will, if we do not provide for the next generation we have accomplished little. The number of farms and ranches has declined precipitously over the last twenty years. For example, in 1980 Iowa had approximately 120,000 farms. Today, Iowa has approximately 96,000 farms and it is estimated that we may lose 6,000 of those farms within the foreseeable future.

With the decline of young people entering production agriculture the age of existing farmers continues to increase. The average age of an American farmer is now 54.3 years. Simple demographics indicates that within the next ten to twenty years a significant number of farms and ranches will either cease operations or succeed to the next generation. We have a unique opportunity to influence which of these two options will become reality.

The problem of moving independently owned and operated farm family businesses is recognized by farmers and they are concerned about the future of American agriculture. In the Sunday, October 31, 1999 issue of the Des Moines Register Ms. Allison Berryhill, a farm wife, wrote an article titled "In consideration of farming". Ms. Berryhill and her husband farm in southwest Iowa near the town of Atlantic. In this eloquently written article, Ms Berryhill laments the fact it is probable that none of her children will farm. She relates the stories of a number of farmers in her neighborhood that have quit farming. The last sentence of this poignant article states the frustration of many of today's farmers, "We are still farming the land, but we've altered our production: I don't think we're raising farmers anymore."

The Beginning Farmer Center has engaged in a variety of efforts to assist beginning farmers, farmers and land owners in their efforts to continue the existence of family owned and operated farm business. We have developed a farm business succession manual titled "Farm Savvy". The Farm Savvy manual outlines a farm business succession planning process. A diagram of that process is included in the written material. Further, we have conducted research in the method of delivery of information to young farmers. We are currently involved in the development of an instrument that will help beginning and existing farmers to identify their values so that they may develop business goals and objectives that agree with those values. In January we will begin a longitudinal survey of several hundred Iowa farmers concerning their farm business succession plans. Provided that adequate funding can be found, we hope to replicate this survey throughout the United States.

In Iowa the Iowa Department of Agriculture and Land Stewardship, the Beginning Farmer Center, the Iowa Agricultural Development Authority and several other organizations recently met to explore ways in which the State of Iowa might address these problems. After several meetings and much discussion this group made a series of recommendations to Iowa Secretary of Agriculture Patty Judge. Secretary Judge has endorsed these recommendations and will be presenting them to the Iowa Legislature when it convenes in January of 2000. Significant among these recommendations is to use the Iowa income tax code to provide incentives for existing farmers and landowners to provide an entry opportunity to beginning farmers. A copy of the recommendations is included in my written remarks.

The National Farm Transition Network also recognizes the importance of this issue. The Network believes that the economic future of a nation's agriculture depends on the ability of a new generation to enter farming. The barriers faced by the next generation are creating a crisis in agriculture. Challenges to farm entry include:

- Insufficient farm entry strategies.
- Insufficient farm exit strategies.
- Inability to acquire the initial capital investment.
- Difficulty in identifying viable farm entry opportunities.
- Difficulty in obtaining appropriate financial, managerial, and production assistance.
- Lack appropriate community support.

The Network believes that programs that help create the opportunity for young people to begin a career in agriculture, particularly by addressing farm access, must be part of the government's and private sector's, including farm organizations, rural development effort. To that end, the Network has made several recommendations to the Small Farms Coordinators that were created by the USDA's Small Farms Commission.

If I may be so bold I have several recommendations that I urge the Congress to consider. The Federal income tax code should be amended to provide incentives for existing farmers, ranchers and landowners to provide an opportunity to existing farmers and rancher. An income tax credit should be provided on the first $20,000 of income from the lease of farm or ranch business assets by an existing farmer, rancher or landowner to an operating beginning farmer or rancher. An income tax credit should be provided on the first $20,000 of income from a farm or ranch business enterprise operated by a beginning farmer or rancher. An income tax credit should be provided on the first $10,000 of income from the sale of a share of a closely held value added business entity to a beginning farmer or rancher.

An interest free loan program for the creation of a value added closely held agricultural business entity should be created.

Finality, USDA should provided matching grant funds to organizations that link existing farmers, ranchers and landowners with aspiring beginning farmers and ranchers.

Thank you for you kind attention to my remarks.

**266.39E Beginning farmer center.**

1. A beginning farmer center is established as a part of the Iowa cooperative extension service in agriculture and home economics at Iowa state university of science and technology to assist individuals beginning farming operations. The center shall also assist in facilitating the transition of farming operations from established farmers to beginning farmers, including by matching purchasers and sellers of agricultural land, creating and maintaining an information base inventorying land and facilities available for acquisition, and developing models to increase the number of family farming operations in this state. The objectives of the beginning farmer center shall include, but are not limited to, the following:

   a. To provide the coordination of education programs and services for beginning farmer efforts statewide.
   b. To assess needs of beginning farmers and retiring farmers in order to identify program and service opportunities.
   c. To develop, coordinate, and deliver statewide through the Iowa cooperative extension service in agriculture and home economics, and other entities as appropriate, targeted education to beginning farmers and retiring farm families.

2. Programs and services provided by the beginning farmer center shall include, but are not limited to, the development of skills and knowledge in financial management and planning, legal issues, tax laws, technical production and management, leadership, sustainable agriculture, human health, the environment, and leadership.

3. The beginning farmer center shall submit to the general assembly, annually on or before January 15, a report that includes but is not limited to recommendations for methods by which more individuals may be encouraged to enter agriculture.
94 Acts, ch 1193, §22

# Beginning Farmer Center

ISU Extension to Agriculture and Natural Resources
College of Agriculture

***Resources to help the next generation of farmers***

## Objectives

The Beginning Farmer Center (BFC) was established by the 1994 General Assembly. Objectives include:

- Coordinating educational programs and services for beginning farmers;
- Assessing needs of beginning and retiring farmers to identify opportunities for programs and services, and
- Developing statewide programs to educate beginning and retiring farm families.

## Organization

The Center is a joint effort between the College of Agriculture Experiment Station and Iowa State University Extension, which delivers the Center's programs and activities. The ISU Department of Economics provides a professor-in-charge of the Center, and the administrator is the attorney for the Iowa Concern Hotline. A full-time associate and 15 associates throughout the state provide services on an as-needed basis.

## Major Activities

**FarmOn** – The Center provides basic funding for the FarmOn program, designed to match retiring farmers with young people who want to get into agriculture. To provide opportunities for potential matches, one-day workshops are hosted throughout Iowa about issues related to farm transitions. FarmOn's active file contains data on 685 potential beginning farmers and 123 landowners. To date, 80 matches have been made.

The Center works closely with county extension and field staff to identify the needs of beginning and exiting farmers. The Center develops appropriate educational material and provides instructors for a series of seminars.

**Ag Link** – Ag Link is a two-day seminar for ISU juniors and seniors who plan to join their family farm operation after graduation. Family members and others in the operation also attend the seminar series, offered by the ISU Department of Agricultural Education. Topics include conflict resolution, goal setting, determining values, business analysis, farm planning, and management. The 1998 seminars were attended by 52 people including 15 students who intend to return to their family farms.

**Individual farm analysis** – The Center supports the analysis of individual farm situations using the FINPACK computer program. Extension associates with the Farm Financial Planning Program perform the analysis during individual sessions with farm families. In 1998, associates performed analyses for five farm families.

**Beginning Farmer manual** – During 1998, the Center distributed 60 manuals for those working with beginning farmers. *Farm Savvy* outlines a process for the transition of a farm business to the succeeding generation. It was distributed to vocational agriculture teachers, community college instructors, and extension staff. The manual also has been made available to the teaching staff at ISU. Numerous requests from throughout the nation have been received.

**Development of education materials** – The Center developed educational material for decision-making, value-oriented management, and writing vision and mission statements.

**BFC on the World Wide Web** – The Center developed its Web site in 1998. From this site, potential clients can have access to selected publications and application forms for the FarmOn program. The site also maintains a discussion board.

**Research activities** – The Center initiated and funded two research projects in 1997. The first project was designed to determine the best methods to deliver information to beginning farmers. Beginning farmers have unique circumstances that influence not only the type of information they need but also the best way to deliver that information. This project looked at other ways to reach this audience besides approaches traditionally used by extension programs. The results of this project were published in the *Journal of Extension* and the *Journal of Applied Communications* and presented at the National Agricultural Education Research Meeting.

The second research project was designed to determine what factors motivate retiring farmers to seek a person outside the family to continue the farming operation. The project identified several factors and has led to the funding of additional research. In 1998, the Center initiated a research project into the identification of the values employed by farmers when making decisions concerning continuing the farm business. The goal is to develop an instrument that may be used by farmers to identify their values related to their farms.

IOWA STATE UNIVERSITY
University Extension

Beginning
Farmer Center

**Regional and national activities** – Iowa's Beginning Farmer Center is recognized as being one of the premier centers. The Center's administrator made more than 35 presentations outside Iowa and coordinates the National Farm Transition Network of various state, university, and private organizations that help beginning farmers. This network allows groups to share ideas and materials, and avoid duplication of efforts. The Center co-hosted the annual meeting of the National Farm Transition Network. Thirty five individuals from various states attended the three-day conference. The Center provided training to farm management consultants in Minnesota. The Center's administrator was invited to several meetings with the U.S. Department of Agriculture concerning efforts to assist beginning farmers. This effort is a direct result of the commission on small farms and its report, "A Time to Act."

## Leveraging the Advantage

The FarmOn program and the Beginning Farmer Center are among the first in the nation to address the critical issue of future caretakers of farmland and successful ways to transfer operations to succeeding generations. Materials developed by the Center have been distributed nationally.

The Center along with several other organizations cooperated with the Iowa Agricultural Development Authority to present an Iowa Communications Network (ICN) program on beginning farmer issues.

The BFC works closely with the Drake University Ag Law Center to provide speakers and materials. The Center also employs legal students part-time as backup for the Iowa Concern attorney (also the Center administrator) when conducting Center business. The Center works in conjunction with the ISU Extension field staff to provide materials, speakers, and financial support for programs to help beginning and exiting farmers. The BFC also provides speakers and materials for the Iowa Bar Association and works closely on program efforts within several ISU departments.

## Future Plans

The current financial situation in agriculture makes long-term planning especially critical. The Center is working to encourage farmers to realistically assess viable options and alternatives.

The Center plans to continue funding and support for FarmOn and Ag Link programs. It also will continue to support individual farm financial analysis for beginning farmers through Extension's Farm Financial Planning Program.

The Center's Web site offers a unique opportunity to reach many people who might otherwise not know about available resources. The Center will also create and administer a home page for the National Farm Transition Network.

The Center is developing a newsletter to help further disseminate information and to discuss new and innovative ways to transfer a farm operation.

An electronic version of the *Farm Savvy* manual will be produced to further enhance its application.

The Center will continue looking at how to increase and understand the motivation for farmers to pass on an operation as a unit, rather than in pieces. Research also is needed to develop and analyze alternative strategies for both beginning and retiring farmers.

**Recommendations** – Iowa must continue and increase its support for beginning farmers and those wishing to transition a farm. One specific way would be to change the Iowa Tax Code to exempt from taxation the first $15,000 of income for the lease of farm assets to a first-time farmer. The definition of a first-time farmer should be the same as the one used by the Iowa Agricultural Development Authority.

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University Extension
***Helping you become your best.***

Michael D. Duffy, professor-in-charge, Economics, (515) 294-6160
John Baker, BFC administrator, (toll-free) 1-800-447-1985
Web site: http://www.exnet.iastate.edu/Pages/bfc/welcome.html

File: Administration 6 EDC 162c February 1999



Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Stanley R. Johnson, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.

# National Farm Transition Network

**Goal:** The goal of the network is to support programs that foster the next generation of farmers and ranchers.

**The Need: The economic future of a nation's agriculture depends on the ability of a new generation to enter farming. The barriers faced by the next generation are creating a crisis in agriculture.**

**Challenges to farm entry include:**

- Insufficient farm entry strategies
- Insufficient farm exit strategies
- Inability to acquire the initial capital investment
- Identifying viable farm entry opportunities
- Obtaining appropriate financial, managerial, and production assistance the parties
- Obtaining appropriate community support

The Network believes that programs that help create the opportunity for young people to begin a career in agriculture, particularly by addressing farm access, must be part of the government's and private sector's, including farm organizations, rural development effort.

**Network Response to Date:**

- **Developed programs that link retirement and farm exit approaches with farm entry strategies** Nineteen programs representing twenty-four states have established Farm Link programs to "link" beginning and retiring farmers. The majority of theses programs lack the funding to meet the demand. Many of these programs provide seminars and consultations that assist farmers in discovering ways to successfully transition viable farm businesses from one generation to the next. Although the desire to enter farming remains strong, (i.e. with program ratios of beginning/retiring farmer inquiries running as high as 10:1), the barriers to entry remain formidable. All participating programs agree that one-on-one technical assistance and resource information and referral are essential. Some programs also use "how-to" regional and statewide workshops on farm succession and other beginning and exiting farmer issues.

- **Developed new transition and tenure models** which facilitate the entry of the next generation and the exit of the existing farmer. These models are regionally appropriate and respond to the unique needs of the full range of entering farmers and farm owners.

- **Network Development** The National Farm Transition Network has held five annual conferences with the goal of sharing information, strengthening existing programs and helping to establish new programs. It publishes a quarterly newsletter and information exchange

- **Web Page** The National Farm Transition Network web page may be found at: http://www.exnet.iastate.edu/pages/bfc/national

**Contact:** John R Baker, Coordinator
1-800-447-1985
1-515-965-9301
x1jbaker@exnet.iastate.edu

# In consideration of farming

## *Promises delivered, promises broken*

I

**By ALLISON BERRYHILL**

Most likely, my children will not farm. This isn't necessarily a bad thing. In fact, I've heard some farming parents proclaim these words gladly, with conviction: "My children will not farm!" as if cutting shackles.

But my husband Dan and I never intended to dissuade our children from farming. Neither did we plan to push them toward it. We did, however, assume it would be one of the options open to them — a choice uniquely available to farm kids, since each successive crop of farmers is, almost without exception, home-grown produce. And so it feels strange — and sad — to sense impending closure on this possibility, the realm that defines their childhood: farming as we know it.

For Dan and me, this realization has wormed its way into our awareness over the past few years, but it's been only recently that we've said it aloud to each other — tentatively at first, like whispering a disease at first diagnosis, then louder as we've grown less fearful of the sound.

**Does it really matter if they can't tell a 1466 International from a 4020 John Deere by its silhouette against the sunset?**

Twenty years ago when Dan started farming, and four years later when I wheeled my Honda down this stretch of gravel to join him, the farm held the promise of bounty for what we wanted from our lives: work and love and nature and family melding into a single fused purpose — without fragmentation between efforts and ends.

with jaded frustration. The scene on the horizon — "farmers" as contract laborers producing corporate-controlled commodities — strips us of the independence and ownership that we had thought defined us, and with it the appeal farming held for operators like us. While few people would argue that Freedom to Farm is a "success," neither do we want to rely on constant government aid. Solutions to the farm economy's multi-faceted woes wither under scrutiny.

I'm not ready to say that we failed to pack enough wits and will for this trek, but we do seem to be running short on sense of humor — and the going is rough without it. We aren't worried that we won't survive (we earned our tenacity trophy in the '80s), as much as we fear the fun has gone out of it.

For many of our peers, it simply has: Roger, a former top-notch hog man, has rented out his land and returned to teaching this fall. Steve's selling everything; he took a job at the bearing factory. Ted packed his family and moved cross-state last winter; he's now a production supervisor with Rubbermaid. Randy has pared down his operation to where he can farm in the odd hours around an office-supply sales job.

These are men who survived the '80s alongside us, armed with youthful optimism, conservative balance sheets, bottomless wells of physical energy. I suspect they could have endured at least several more years of the gloomy forecast. But all are choosing to leave, and I think I understand why more clearly than I understand why others of us will weather it out.

In many respects, farming has delivered on those promises. I have countless crystallized images of hard work merging into purest joy: standing on a flatbed trailer, baptized in blue spring sky and scent of new-thawed earth, helping my young husband load seed bags for our first planting season together.

I remember a day from the summer our son Max was 5. After helping Dan chore, he wanted Grandma to sniff his hair. "Do I smell like hogs?" he asked hopefully, then, in response to her wrinkled nose: "Good! I want to smell like that!"

We are concluding another harvest's rush and bustle. Shimmering corn gushes from combine to wagon as imminent winter nips and swirls around us. I make lunches and shuffle men between the fields, scurry to town for parts, and even this lowest rung of contribution reaps me a tingle of harvest's thrill.

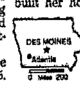
So yes. Life is still good here. We have salt-of-the-earth neighbors (though most have town jobs). We have vistas that would make Grant Wood run for his brush, and blue heron tracks along the creek bank. We've weathered two volatile decades of farm changes and built an operation that is as sturdy as any we see around us. Despite two "farm crises" within our tenure, we seem to keep the "contentment" bin fuller than the "disappointment" bin. Dan and I expect to live out our lives here on our corner of Iowa sod.

But will we tell our kids to farm? Our endurance has not come without a price. We are, at age 40, entering the second half of our lives

II

Most farmers remaining have battened down the hatches by securing supplementary income: Eric has begun a farm-chemical distribution company; Al has dusted off his veterinary license and moonlights as a consultant; my husband Dan runs semi-trucks, dispatching drivers via cell-phone from the combine cab.

I find myself feeling like someone who unwittingly built her house on a fault line: We've learned to hold tight through the tremors; we've survived some major quakes — watching in horror as they swallowed friends and neighbors. We know tricks to keep ourselves braced. We love our home and we wouldn't trade the view, but we hadn't realized the foundation beneath us would rumble and shift like this. I can't, in good faith, tell my kids to build here.




Acknowledging that we are most likely completing a family's last generation on the farm, rather than continuing a legacy, causes a subtle refocus in our decision-making: Should the kids learn to drive tractor? Is it still important for them to put in hours alongside their dad, learning to troubleshoot oil leaks and bearings gone bad? Does it really matter if they can't recognize evidence of corn borer or tell a 1466 International from a 4020 John Deere by its silhouette against the sunset?

"I guess not" is the answer that has crept into our thinking, and it's an answer that tilts our priorities. We are still farming the land, but we've altered our production: I don't think we're raising farmers anymore.

**ALLISON BERRYHILL** *lives in rural Atlantic.*

# FARM PLANNING PROCESS

**HUMAN RELATIONS PLAN**

COMMUNICATIONS SKILL
DECISION MAKING SKILL
CONFLICT RESOLUTION SKILL
PERSONNEL MANAGEMENT SKILL

↓

**SELF ASSESSMENT**

VALUES DETERMINATION
VISION STATEMENT

↓

**GOAL SETTING**

PERSONAL GOALS

↓

**BUSINESS**

**RESOURCE INVENTORY & ANALYSIS**
PHYSICAL, FISCAL, PERSONAL
**MISSION**
WHY ARE WE HERE? WHAT DO WE BELIEVE IN?
**BUSINESS GOALS**
WHAT DO WE WANT TO DO? WHAT DO WE WANT TO BE?
**OBJECTIVES**
HOW ARE WE GOING TO GET THERE?
HOW WILL WE KNOW WHEN WE HAVE ARRIVED?

↓

***Planning must be done at the same time because each planning area affects all other planning areas.***

| BUSINESS PLANNING | RETIREMENT PLANNING | TRANSFER PLANNING | ESTATE PLANNING |
|---|---|---|---|
| Opportunities | Timing | Income | Equal vs. Equitable |
| Threats | Residence | Amount | Business Assets |
| Strengths | Income Source | Source | Personal Assets |
| Weaknesses | Household Budget | Method | Consistency |
| One year | Recreational Needs | Household Budget | Flexibility |
| Two years | Health Care Needs | Management | Legal Documents |
| Five Years | Long Term Needs | Business Entity | Liquidity Needs |
| Ten Years | | Shared Decisions | Tax Consequence |
| | | 1. Production Plans | |
| | | 2 Marketing Plans | |
| | | 3. Financial Plans | |
| | | Assets | |
| | | Which Assets | |
| | | When | |

## ALLIANCE PROGRAMS

**Develop community alliances with beginning farmer livestock producers and local meat lockers:**

A. Establish program for small livestock processor and producers to increase their profitability by being more aggressive marketers of livestock products.
B. Funding could be jointly provided by USDA and IDALS. (Per Minnesota example)
C. Train livestock producers in direct marketing techniques that enable them to market their livestock products directly to consumers.
D. It gives the consumers access to a premium product whose source is readily identifiable in their own community.
E. Small meat processor can benefit from the growth of direct marketing because farmers will make greater use of local meat plants to slaughter and process their livestock.
F. Funding will be needed to provide training as well as consultation/coordination sessions with the various potential participants all the way through the implementation.
*(Legislative Action Needed: appropriate $100,000 and one FTE for training and travel for IADA/IDALS staff time and establish rules to administer program.*

**Align beginning farmers with set aside acres coming out of the program with organic ventures/alliances:**

A. When set aside acres are released and allowed to be put back into production, they meet the requirements for organic production of agricultural/food products.
B. Interested farmers could be aligned to produce and market organic products to present and potentially new niche markets.
C. **It is recommended that the Iowa Department of Agriculture and Land Stewardship's Organic staff be expanded to designate one person to aggressively develop and coordinate this long-term program.**
*(Legislative Action Needed: appropriate $100,000 and 1 FTE for IDALS Organic Staff and establish rules to administer program)*

## LOAN PROGRAMS

**Establish an interest-free/low-interest loan program for beginning farmer value-added ventures:**

A. In August 1998 the Iowa Agricultural Finance Corporation (IAFC), through a $25 million interest-free loan from the state of Iowa, initiated its efforts to finance value-added ventures in Iowa; on-farm ventures were to be included.
B. Due to investors' requirements, no low-interest ventures will be financed by the IAFC.
C. **It is recommended that a $10 million fund be provided by the Iowa Legislature to the Iowa Agricultural Development Authority (IADA) in order to provide interest-free or low-interest loans for projects/ventures that process Iowa agricultural commodities in value-added products.**

*(Legislative Appropriation Needs: appropriate $10,000,000 through Capco funding and modify Iowa Code Chapter 175, section 175.13A)*

**Adjust IADA Beginning Farmer Loan Program (BFLP)--$250,000 net worth:**

A. Presently eligible applicants' net worth must be less than $200,000.
B. Agricultural values have inflated considerably since the program began in 1981.
C. **It is recommended IADA's BFLP be modified so that eligible applicants be permitted to have a net worth up to but not in excess of $250,000.**

*(Legislative Action Needed: Revise Iowa Code, Chapter 17, Section 175.2, subparagraphs 12a; also change subparagraphs 12b, 12c, 12d to reflect $500,000 for partnerships, corporations, and limited liability companies.)*

## TAX CREDIT INCENTIVES

**Income tax credit for active farmers renting their agriculture assets to beginning farmers:**

A. Provide tax credit on the tax of the first $20,000 of gross annual income from a lease of agriculture assets to an active beginning farmer.
B. This credit would apply to income from any source, i.e., cash rent or share lease.
C. Inter-family transactions would also be eligible.
D. The credit could last for up to a maximum of 10 years

**Income tax credit for beginning farmers' first $20,000 farm income:**

A. Provide tax credit on the tax of a beginning farmer's first $20,000 income from his/her farm operations.
B. Credit could last up to 10 years.

**Income tax credit for beginning farmers new-to-the-farm grain storage:**

A. Provide tax credit of $0.05 per bushel of new-to-the-farm grain storage created and constructed by a beginning farmer.
B. Tax credit would be available only to Iowa beginning farmers to encourage/support a 12-month marketing plan.
C. Credit could last up to 5 years, which could coincide with the term of loan payments on this new structure.

**Income tax credit for beginning farmers and closed coops to purchase/sell value-added stock in a closed cooperative to beginning farmers:**

A. Provide tax credits for the buyer and seller on the first $10,000 of value added stock purchased by a respective beginning farmer.
B. This could be coupled with an interest-free loan or low-interest loan for beginning farmer/s to create producer owned business entities.

**Property tax credit for landlord on the land they rent to a beginning farmer:**

A. Provide property tax credit of 10% on the landlord's property taxes for land rented to a beginning farmer.
B. This could apply to land owned by anyone, including leases to family members.

*(Legislative Action Needed: Establish above tax credits through respective channels.*

**LEGISLATIVE PROPOSALS**
**For A**
**"PRO-RURAL BUSINESS AGENDA"**

**Completed by Future Search Conference Steering Committee**

- These legislative proposals were developed by the participants of a Future Search Conference that was conducted on August 4-5, 1999 with 36 Iowans concerned about the future of Iowa's beginning farmers.
- We respectively and sincerely request the Iowa Legislature and Governor adopt these measures to assure Iowa's agriculture includes beginning farmers (bf).
- This package consists of the following four components:

| | |
|---|---|
| A. Tax Credits | Encouraging established farmers to rent their agricultural assets to Iowa beginning farmers (bf). |
| B. Loan Programs | 1) Interest free/no interest loans for bf value-added ventures<br>2) Increase net worth maximum for Beginning Farmer Loan Program (BFLP) applicants' from $200,000 to $250,000 |
| C. Alliance Programs | 1) Develop community alliances with bf livestock producers and meat lockers<br>2) Align bf with set aside acres with organic ventures/ alliances |
| D. Funding Sources | 1) 50% of Capco funds<br>2) Ag Contribution Tax Credit |

Definitions:

*Beginning Farmer* -- An Iowa resident, who is at least 18 years old, presently or has not owned Iowa land in excess of 30% of their county medium acres, and is the operator/manager of his/her farming operation.

*Value-added ventures – Processing agricultural products either on or off the farm that result in value being added to the original commodity.*

National Farm
Transition Network

ISU Extension Outreach Center, 2020 DMACC Boulevard, Ankeny, Iowa, 50021
Phone: 515-965-9301, Fax: 515-965-9375, E-mail: x1jbaker@exnet.iastate.edu

July 8, 1999

Small Farm Coordinators
c/o Ms. Adela Backiel
Director of Small Farms
USDA
Room 112A
14th and Independence Ave., SW
Washington, DC 20250

Dear Coordinators,

Four members of the National Commission on Small Farms were appointed to act on beginning farmer issues until the Beginning Farmer Advisory Committee is established. This group agreed that farm succession planning and farm transfers were the most critical problem to address in relation to beginning farmers. The programs composing the National Farm Transition Network agree with their conclusion and want to lend our voice to several of the recommendations of the National Commission on Small Farms.

Farm transfers/succession
1. We understand that ERS has begun its study of tax law on farm transfer and alternative farm transfer options.

*Recommendation:* Our current tax policy provides incentive for farmers to invest in labor saving equipment rather than labor. It also provides incentives to hold on to farmland rather than lease it to beginning farmers. Tax changes should be recommended by USDA to Congress that would provide landowners with tax incentives on the first $10,000 in income from leasing land and buildings to beginning farmers. When landowners retire another $20,000 should be exempted from income from land and buildings regardless of the relationship status. Other tax changes should provide incentives for hiring people rather than purchasing machinery. The critical issue for beginning farmers is *not* a capital gains tax issue but rather an income tax issue. States should also be encouraged to develop and implement similar incentives to help beginning farmers.

The USDA, through a variety of agencies, but primarily through FSA, have been lending money to beginning farmers for half a century and we have less young farmers now than at any point in the history of the United States. The critical issue for a beginning farmer is not the purchase of real estate. Farmland has the highest fixed cost and the lowest rate of return of any asset in a farm enterprise. When a beginning farmer uses their limited borrowing capacity to borrow money to buy a land it is a recipe for disaster. Once the beginning farmer uses up all of his or her borrowing capacity to buy land it increases their risk of failure because it reduces their capacity to withstand a crop or market failure. Therefore, FSA should provide guaranteed financing for the long term lease of farm business assets. Such financing should be coupled with a business succession plan agreed to by the beginning farmer and the active farmer.

2. Farm transfer studies from other countries have addressed the difficult issues farm families must resolve if a successor is to succeed in the farm business. These studies recommend open communication and early planning as the two most important components of successful farm transfers. These studies cite the need for educational materials and seminars to address these issues and additional study in the role of non-farm siblings in the transfer process.

*Recommendation*: Members of the National Farm Transition Network have developed a variety of educational materials and programs and have conducted seminars encouraging open communication and early planning of the succession process. USDA should assist these efforts by supplying matching federal funds for linking programs that assist entering and exiting farmers in the development of farm succession plans. The role of non-farm heirs in the succession planning, or lack of planning, could be further documented and researched.

3. When a farm owner reaches retirement age and a successor has not been identified, the farm's possibility of being sold for development significantly increases. Yet, very little attention is paid to this problem in farmland preservation programs.

*Recommendation:* "Who will farm the land?" should be identified as one of the priority factor for selecting farms to protect in farmland preservation programs. Incentives or points should be given to those farms where an active farm succession plan is in place.

Beginning Farmer Development

The 1997 Census indicates the average age of a farmer is increasing. We now have 17% of farmers over the age of 70 and only 11% under the age of 35. More effort must be made to bring the next generation into the business. Hence, the recommendation for a Beginning Farmer Development Program to support the establishment of training and assistance centers across the country.

*Recommendation:*

Fund beginning farmer initiatives such as the Northeast Beginning Farmer Development Initiative and develop an interagency plan to provide appropriate support. Actively pursue the establishment of mentoring programs among existing farmers and peers.

*Recommendation:*
USDA should investigate the provision of financial assistance for apprenticeship programs as a way to provide incentive for beginners to enter the business. (For example, both state and federal financial assistance is provided for training of health care professionals to encourage them to work in designated under-served areas. In exchange for this financial training assistance the individual agrees to work in an under-served area for x number of years. A similar program could be designed to help beginning farmers and could also serve as a way to track and document farming experience for FSA loan applications.) Other countries provide financial incentives to the mentoring farmer such as payment of worker's compensation insurance or agreed on payments over time. We should implement these types of programs.

Of course, these recommendations are not a comprehensive list of the needs of beginning farmers. However, if they were all implemented we would be well on the way to encouraging more young people to enter farming. We would be pleased to work with you to implement these recommendations.

Sincerely,

John R. Baker
Coordinator

## FUNDING SOURCES

**Establish a FARRMCO – Financial Assistance Rehabilitating Rural Management for beginning farmers by diverting to IADA 50% of Capco funds to projects that will assist beginning farmers and their involvement in value-added cooperatives:** *(A possible spin off to new legislation establishing Capco venture capital)*

A. Make amendments to legislation vetoed last year that would have permitted insurance companies to claim a tax credit in an amount equal to ten percent of their investment in a CAPCO in a calendar year.
B. Newly accumulated funds received by IADA would be used to finance low-interest loans to Iowa farmers to purchase stock in value-added cooperatives, fund alliance programs and partially offset the local property tax credits for landlords.

*(Legislative Action Needed: Provide amendments to proposed legislation [for HF767] to include provisions for IADA to receive 10% of funds for purpose of financing farmers to purchase stock in value-added cooperatives.)*

**Beginning Farmer Contributor Tax Credit**

A. Provide tax credits in an amount up to 100% of cash contributions by a person, partnership, corporation, trust, limited liability company, or other entity (the "Donor") made to the Iowa Agricultural Development Authority (IADA).
B. Contributions are to be used for financial or technical assistance to beginning farmer producers and small/local processors.
C. The amount of the tax credit will be determined based on competitive bids submitted to the IADA.
D. Tax credits must be taken in the taxpayer's 2000 tax year and thereafter against their tax otherwise due.
E. Credits may be assigned, transferred or sold by filing a notarized endorsement with the IADA that contains the name and address of the new owner and the sale price of the credit.
F. The Donor receiving a tax credit cannot be a member, owner, investor, or lender of:
   1) An eligible beginning farmer value-added cooperative that receives financial assistance from the IADA at the time the Contribution is made or
   2) An eligible beginning farmer value-added cooperative that receives financial assistance for a period of two years after the Contribution is made.

*(Legislative Action Needed: Revise Iowa Code, Chapter 175, Section 175.6, paragraph 10, to authorize IADA to utilize gifts or other aid received for the above purposes.*

## The next generation of farmers?

**We have a crisis in the making.** Pennsylvania agriculture has twice as many farm operators over the age of 70 as under the age of 35. Who will be our next generation of farmers?

Potential replacement farmers, under age 35 make up only 8 percent of our total number of farm operator, according to the 1997 Census. Minority farm operators account for only 2.5% of the total farm operators in Pennsylvania in 1997. Are we prepared for retiring farmers to sell off their properties for housing or industrial development, due to the lack of well-trained, business-oriented younger farmers?

*"That so few young people are going into farming is one of the most critical problems of American culture. It is implicitly a huge economic problem... "—Wendell Berry*

***The Problem:*** Pennsylvania Farm Link identified three major problems contributing to the decline in potential young farmers. They are:

- The need for earlier farm succession planning,
- The need for start-up training assistance and hands-on experience for potential farm entrants
- The increasing entrepreneurial skills required to generate higher profit margins.

Farm Link's programs aggressively address these needs by helping farmers develop better succession strategies and providing job training assistance to beginning farmers.

"It made the ball roll. I gained ground on my partnership. It made me think about how I would pass it on for the future generation, too." --Rick Harshman on his results after attending Farm Link's "Passing on the Farm" Workshop

### The Results:

***Earlier Succession Planning*** Six Passing on the Farm workshops provided over 300 participants with the ingredients for a successful farm transfer: planning details on human relationships, business, financial, estate, and legal assistance planning. Local farmers provided real life examples of their succession process.

Follow up telephone surveys after the workshops reveal many positive responses on the entire range of succession planning activities.

- 6% of the participants transferred their farm to a successor within the year.
- 94% were involved in the chain of decisions necessary to bring in a successor.
  --more than 50% were communicating better with farm partners;
  --48% met with family members to start the planning process;
  --49% realized they needed to begin the succession process earlier.
  --74% were reading more about succession planning issues
  --Many said it created a sense of urgency to begin succession planning.
- 55% took the initial step in the business plan by taking inventory of farm assets.
- 48% were working on a business plan and keeping better farm records
- 33% scheduled meetings with a financial advisor to review their business records and
- 27% talked to an accountant about the financial feasibility of transferring their farm.
- 40% talked to estate planners about transferring assets, setting up trusts, and developing partnerships.
- 33% scheduled a meeting with an attorney to talk about farm transfers; 33% were planning to.
- 25% inquired about a loan to finance farm transfer.
- 42% investigated local farmland preservation programs.

***Marketing and Entrepreneurial Training***

Tomorrow's agricultural economy requires greater marketing and entrepreneurial skill to compete in the global market. Today's farmers are looking for opportunities to realize higher profits through more direct marketing avenues.

Road side market, community supported agriculture (CSA) farmers' market, direct market, cooperative, and supermarket entrepreneurs provided insight and expertise to over 300 participants in Farm Link's New and Beginning Farmer Workshop and seven marketing meetings. Actions taken:

- 15% had actually started their farm operation as indicated by filing a loan application.
- 66% were working toward better business plans, including improving their record keeping, determining the financial feasibility of their business, or upgrading their business plan.
- 100% investigated additional markets.
- 50% were looking for lower cost production strategies and start up strategies and were actively talking to other farmers.
- Most were advancing their careers by additional reading, taking courses and workshops, and talking to other agricultural organizations and beginners.

***Linking service/technical assistance***

Many farm owners have no family member to take over their farm operation, but would like to see their "life's work" remain in agriculture. Farm Link's database assists these individuals locate an appropriate beginning farmer for their farm.

We responded to 602 inquiries from farmers and provided individual assistance to 25 families on the technical parts of a farm succession plan. As a result of our linking service, three links were made this year. Two of the beginners started as employees on dairy farms, one is renting a farm and purchasing the owner's cows.

For more information call or write Pennsylvania Farm Link at 2708 A North Colebrook Road, Manheim, PA 17545 Phone: 717-664-7077 Fax: 717-664-7078 email: pafarmlink @ redrose.net

# Suggested Federal Tax Credit Incentives

**Income tax credit for active farmers renting agricultural assets to a beginning farmer.**

A. Provide an income tax credit on the tax on the first $20,000 9of gross annual income from the lease of agricultural assets to a beginning farmer.
B. The credit is applicable to income from any source, i.e. cash rent or share lease.
C. Intra-family transactions would also be eligible.
D. The credit will apply for a maximum of 10 years.

**Income tax credit for a beginning farmers first $20,000 of income from a farm operation.**

A. Provide an income tax credit on the tax on the first $20,000 of gross annual income from a beginning farmers farm operation.
B. The credit will apply for a maximum of 10 years.

**Income tax credit for beginning farmers and closely held business entities.**

A. Provide a tax credit for seller on the first $10,000 of income from the sale of a share in a closely held value added entity to a beginning farmer.

**Establish an interest free loan for the creation of value added closely held agricultural business entities that provide share ownership opportunities to beginning farmers.**

Pennsylvania Farm Link's Calendar of Events
1999-2000

| | | | |
|---|---|---|---|
| Sept. 28, 1999 | Selling at Supermarkets<br>Weis Markets<br>Lewisburg, PA | Jan. 8-13, 2000 | PA State Farm Show<br>Harrisburg, PA |
| Sept 30, 1999 | Selling at Supermarkets<br>Clemens Market<br>Quakertown, PA | Jan.20, 2000 | "Passing on the Farm" Workshop<br>Fulton/Bedford/Somerset Counties<br>The Arena Restaurant<br>Bedford, PA |
| Oct 5, 1999 | Selling at Roadside Markets<br>Swamp Fox Farms<br>Glen Rock, PA | Feb. 10, 2000 | "Passing on the Farm" Workshop<br>Huntingdon/Blair Counties<br>Martinsburg, PA |
| Nov. 3, 1999 | "Passing on the Farm" Workshop<br>Bradford County Extension Office<br>Towanda, PA | March, 2000 | The New Farm Entrepreneur:<br>Sixth Annual<br>New and Beginning Farmer Workshop<br>East and West locations: TBA |
| Nov. 22, 1999 | "Passing on the Farm" Workshop<br>Mercer/Erie/Crawford Counties<br>Mercer County Cooperative Extension<br>Mercer, PA | March, 2000 | "Passing on the Farm" Workshop<br>Southeast Region<br>Location: TBA |
| Dec 8-11, 1999 | National Young Farmer Convention<br>Hershey, PA | May, 2000 | Selling at Farmers Markets<br>Location: TBA |
| Dec. 16, 1999 | "Passing on the Farm" Workshop<br>Juniata/Mifflin Counties<br>Lewistown Center<br>Lewistown, PA | May, 2000 | Cooperative Marketing<br>Location: TBA |
| | | June, 2000 | Subscription Marketing<br>Emmaus, PA |

**For more information or to register call 717-664-7077**
**or email to pafarmlink@redrose.net**
**Pennsylvania Farm Link**
**2708 A North Colebrook Road**
**Manheim, PA 17545**

## W.B. Saul High School Focus Group on October 5, 1999

**Participants-16 young women, 5 young men, 5 white, 16 minorities—all are FFA members and are enrolled in the large animal sciences at Saul**

[redacted]—is in the 11th grade and has shown livestock at the PA Farm Show. Her career aspiration is to be a veterinarian owning her own practice. Relatives in Florida own a farm with exotics.
[redacted]--is in the 11th grade and has shown sheep at the PA Farm Show. She also wants to be a vet.
[redacted]--is 16 and in the 11th grade and has shown sheep at the PA Farm Show. Her career goal is to be a vet technician. Her grandma was raised on a farm.
[redacted]—is 16, in the 11th grade and has shown sheep at the PA Farm Show. Although she has not decided on career goals, she is leaning toward veterinary medicine.
[redacted]—is 17, in the 11th grade, and has shown livestock at the PA Farm Show. She has friends who farm and her great grandmother owned a farm. Her career goal is to become a dairy farmer.
[redacted]—is in the 11th grade and has shown sheep at the PA Farm Show. She stated that she doesn't know much about farming and is undecided about career goals.
[redacted]—is 18 and has shown animals at the PA Farm Show. Her career goals are largely undecided but she is leaning towards being a zoo-keeper.
[redacted]—is a senior and has shown pigs at the PA Farm Show. Her career goal is to be a chiropractor. Relatives in the South were in farming.
[redacted]—is 17, in the 11th grade and has shown dairy and swine in the PA Farm Show. She is undecided about career goals.
[redacted]—is 17, a senior, and has shown a pig at the PA Farm Show. He is interested in smaller animals and is undecided about career goals, but is leaning toward farming or veterinary medicine. He has a cousin in Saudia Arabia who is on a farm.
[redacted]—is in the 11th grade. She would like to work in a veterinary hospital or in landscaping. Her grandfather was a horse jockey.
[redacted]—is 16 and in the 11th grade. He doesn't want to be a farmer, but would like to work in aquaculture, perhaps at Sea World.
[redacted]—is 16 and in the 11th grade. She worked on a friend's horse and dairy farm and is interested in operating a similar operation after school.
[redacted]—is 17 and a senior. His father has a farm in North Carolina and raises horses and chickens. He sees farming as a low wage occupation and doesn't want to get into farming, but is undecided about career goals.
[redacted]—is in the 11th grade and has exhibited livestock at the PA Farm Show. She would like to own a farm, but wants to hire other people to do the work. Her great grandfather was a share-cropper.
[redacted]—is 16 and in the 11th grade. His great grandma had a farm. His career goal is to be a vet.
[redacted]—is 16, a senior, and the Vice President of FFA. She is allergic to hay, so she doesn't want to be a farmer, and says its too much work. He would like to be a vet or a doctor.

[redacted]-- is 16, a senior and has worked with horses on her own family's farm. She would like to be an obstetrician and train and show horses on the side.
[redacted]—is 16, a senior and the President of the FFA. She would like to own a farm, but would like to be a veterinarian.
[redacted]-is 18, a graduate of Saul and is currently employed as a AI technician at Genex. He likes cows and may be interested in farming.
[redacted]—is 16 and has shown pigs at the PA Farm Show. Her aunt owns a farm. Although she is undecided about her career goals, she is leaning towards being an animal trainer.

This group of high school students had the advantage of working on the farm at the Saul High School and had many vocational agriculture courses and training that is unavailable to rural districts. The students were proud of their education at Saul and proud of their school. One said, "We should put posters up about Saul from here to the Wissahickon Transfer stop that say 'Go to Saul!' " They marveled at the lack of knowledge their peers had about animals and were proud of their knowledge and sophistication in this area. One student said, the other kids think we go to classes with the cows walking around in the hallways.

Many of the students said they didn't start out wanting to go to a vo-ag school, their parents pushed it on them, because Saul has a good reputation. Administration noted that is also considered a safe school.

Over half of the students had exhibited livestock at the PA Farm Show, most had attended the Farm Show, and several others were interested in exhibiting. Some were initially afraid of animals, but were able to overcome those fears, and go on to enjoy working with animals. However, very few had any other experience, other than Saul, in working with animals. Only three had worked on commercial farms, and it is of interest to note, that two of those want to be dairy farmers. The other student would like to be an obstetrician but would like to train and show horses on the side. While the desire to enter farming was not strong in the group as a whole, the desire to enter veterinary medicine was strong. Over half of the students indicated this as a career goal.

Lack of opportunity to get hands on experience through a family situation was very limited. Only one student's family owned a farm, another student's father worked on a farm in the South. The other students either had no close relatives involved in farming or were two to three generations removed from farming. While their education experiences at Saul appear to be excellent, their opportunity to seek out career paths in farming are very limited due largely to their surroundings and lack of access to working farms.

According to the students, co-op and intern experiences include the agriculture professions and landscaping but no working farms. Again, this is a product of the setting of the school and surrounding counties. Transportation to potential job sites on farm will be a challenge.

Most students now valued their education and felt that it changed their attitude about animals and farmers. They had a deeper understanding of the hard work and perseverance needed to farm. Farming is viewed as a high risk, low return occupation that requires good business skills and record keeping to be successful. Students also had a sense of the responsibility involved, one said, "It's a big responsibility, as much as any other job. Concerns included the lack of a steady paycheck and what they saw as this generation's desire for high-powered occupations and more money.

They also understood that a farming career could not be established overnight, but needed to start out small and gradually increased over time. Some thought the hard work and sacrifice required were too great for their generation. One said, "It's like a third world occupation." One student said people are just too lazy to go into farming, today.

The desire to advance their careers and to obtain further education was strong. All of the students said they wanted to further their education, most in college. However, their awareness of community resources for agriculture was limited, for example they were largely unaware of resource agencies that assist beginning farmers.

Although only three indicated interest in a farming career, eleven of the twenty students indicated an interest in a youth apprentice in production agriculture. Establishing apprenticeships for this group will involve many challenges, but the potential and desire is there.

## Manheim Central Focus Group on September 23, 1999

### Participants-9 young men, 1 young woman

[redacted]—16 years old, 11th grade—lives on a 300-acre beef farm with a commercial grain elevator. An FFA member for three years, he is an officer this year, and has exhibited livestock at the Manheim Farm Show. Their family has some exotic animals on their farm, including Scottish Highland cattle and llamas. He is undecided about career goals, but wants to do something in agriculture. His family encouraged him to be the sole manager of an acre of tobacco last year.

[redacted]—16 years old, 11th grade—lives on a 30-acre horse farm. Her father boards horses and is a fulltime trainer. Her experience includes helping her father with training and working in a local greenhouse. She is the only one of the group who plans to go to college, probably Penn State, but is undecided about career plans. Expressing an interest in floriculture, she plans to have a full time job and train horses on the side.

[redacted]—17 years old, 11th grade—His family lived on a dairy farm until he was 7 or 8. The farm was sold at auction due to an inability to remain solvent after modernization. He worked on a dairy farm for the last 31/2 years and is currently working on a 400-cow operation. As a member of FFA, he has shown pigs and steers at the Manheim Farm Show. He plans to participate in the coop program next year.

[redacted]—is 16 years old, 10th grade—his father and grandfather were in partnership on a farm, but he does not currently live on a farm. An FFA member for the last two years, he currently works on a local dairy farm. He stated that he likes the mechanical side of farming more than production and thinks his career will most likely be in that area. His aspirations are to operate a part-time beef farm.

[redacted]—is 16 years old, 10th grade—and lives on a 115-acre dairy farm. A member of FFA since 8th grade, he plans to take over his family's dairy farm. Although he has three brothers who also help work on the farm, he thinks that he will be the one that will be the sole operator in a few years.

[redacted]—is 15 years old, 10th grade—lives on a 36-acre part-time beef farm. His father makes his living as an auctioneer. In addition to membership in the FFA since 8th grade, he has shown steers at the Manheim Farm Show. He is undecided about his future plans.

[redacted]--is 17 years old, 12th grade—he lives on a 58-acre poultry farm. Currently he is an officer in the FFA and participates in the Co-op program on his mother's farm. He may eventually take over the poultry farm, but, also wants to do something in woodworking after high school. He is undecided about career goals.

[redacted]--is 16 Years old, 10th grade—he live on an 85-acre dairy farm and has works for his dad during the school year. He spent the last two summers working on a cattle ranch in Montana. Currently serving as an officer, he lists two years of FFA membership. After high school, he may help his dad on the farm, but wants to eventually move west and become a cattle rancher. He isn't sure there will be any farms left in Lancaster County in 20 years.

[redacted]—is 16 years old, 11th grade—he lives on a dairy/hog farm. They milk 160 cows and his responsibilities include the entire cow feeding. Although he is not sure what he wants to do after high school, he plans to become a crop farmer.

This group was very experienced in farm work and heavily enmeshed in the farm community. All but one of the participants grew up on a farm. Everyone had major responsibilities either on their home farm or working for another farmer. Everyone was involved in the FFA, and most participated in the local Farm Show, exhibiting livestock.

Some students had the experience raising a crop or animal entirely on their own, making all of the decisions, and providing the labor and management necessary to produce and market their crop. These job experiences led to earning, saving and investing money at an earlier stage of life than their peers, and contributed to their belief in their abilities and self-worth. Many expressed pride in their abilities and pointed out that other students their age "really don't know what things are like in the real world." Most understood that obtaining a farm business takes time and sacrifice. They knew they would have to work for someone else for awhile to accumulate the capitol they would need to get started.

The overwhelming sentiment was that hands-on experience was the best teacher. Only one participant wanted to attend college. Although the others were not adverse to advanced education, they wanted it in shorter sessions, in the evening or in a series of evening sessions, one-day workshops, or other time-frames that would not require a four year investment of time and money.

This is consistent with the findings of Education Resources Information Center (ERIC) in identifying the characteristics of entrepreneurs:

- ✓ Vocational graduates were much younger when they started their business than the balance of entrepreneurs.
- ✓ Most entrepreneurs came from trades and industrial education, followed by agriculture, and then business education.
- ✓ One-third of the business owners started with less than $5,000. Only 21% started with more than $50,000
- ✓ Two thirds of the business owners reported participating in further education or training after business start-up.

When asked about the co-op program, some students felt that most participants thought of it as work and a way to make money while getting out of school. They thought that a more valuable learning experience would include the opportunity to work on several different types of farms, rather than just one farm. They suggested establishing a rotation of farms and thought that would help them decide what kind of farming they wanted to pursue.

This particular group of students appeared to be very cohesive and had similar interests. They feel constrained by the fact that they have students in their classes that aren't interested in pursuing a career in agriculture. One student talked about a fellow student who thought a cantalope grew up out of the ground rather than on a vine. The whole group laughed. They suggested that the people who wanted to pursue farming should be in separate classes so that they could pursue some subjects in depth. They would like more in depth, intensive study in farming topics and less of a broad brush stoke approach to agriculture topics. They had some knowledge of agriculture resource organizations, but wanted to learn more about these organizations. Field days on active farms, job-shadowing, and more specific classes were all recommended. The potential exist to expand on this group's cohesiveness and interest.

The general attitude about farming was that is was a high-risk occupation. One student said, "Agriculture is a big gamble. In other industries, where there's a big threat of failure, there's a high return. Farming is high risk, but not high return. Its just so overwhelming that people just starting out, just don't want to put themselves in that position. Is it really worth it?" Overall, most students thought that farming wasn't as inviting as other occupations.

One student commented on the current drought and help that is available for the farmers. He said the government acts like they want to help, but then when you check into the assistance available, you have to be rejected by other lenders. He thought this was misleading and was only for those farmers who were already unstable.

However, everyone thought they might at least want to farm part-time. They expressed their love of animals, working the land, being outside, the family values, way of life, and culture of farming for the reasons they wanted to go into farming. Some thought they would need to leave the county and even the state to find affordable farmland, another student thought it was easier to farm in other states. The desire to enter farming was evident, the confidence that the obstacles could be overcome was not as evident.

Most felt that commodity prices were just too low and that something needed to happen to enable and encourage young people to get into farming. There was deep concern over the development pressure and urban-rural conflict within their communities. One student said, "I don't think there will be any farmland left in Lancaster County in twenty years." They were aware of farmland preservation efforts in the county.

**Title: Creating Farming Opportunities for the Next Generation**
**Author: Marion Bowlan, Executive Director**
**Pennsylvania Farm Link, Manheim, PA**

***We have a crisis in the making***. Pennsylvania agriculture has twice as many farm operators over the age of 70 as under the age of 35. Who will be our next generation of farmers?

Potential replacement farmers, under age 35 make up only 8% of our total number of farm operators, according to the 1997 Census. Minority farm operators account for only 2.5 % of the total farm operators in Pennsylvania in 1997.

Pennsylvania Farm Link identified three major problems contributing to the decline in potential young farmers. They are:

- The need for earlier farm succession planning,
- The need for start-up training assistance and hands-on experience for potential farm entrants,
- The increasing entrepreneurial skills required to generate higher profit margins.

Farm Link's programs aggressively address these needs by helping farmers develop better succession strategies and providing job training assistance to beginning farmers. Activities include: workshops on farm succession planning, marketing and entrepreneurial development meetings, beginning farmer workshops, and a youth apprentice program targeted to minorities and women. A linking service assists entering farmers and landholders locate appropriate farming opportunities. Individualized technical assistance, information, and referral are provided to any farm family.

**Better Farm Succession Strategies**

At the core of family farm ownership is the capacity of the land and the family to create a productive business operation. Presently, families own over 90% of our nation's farms. Yet, recent statistics for family business succession indicate that only 30% of those businesses will transfer to the second generation and less than 10% will continue into the third generation (The Successful Family Business by Scott E. Friedman),

Some farm children are not entering farming careers because the farm business lacks a succession plan for bringing in the younger generation. Farm succession is a fundamental part of the transference of the farm business. But, succession is not just about the transfer of the land; it is a process whereby the tradition, skills, and capital of farming are passed on.

According to a New Zealand study by Heather McCrostie Little and Nick Taylor, there are three universal dilemmas that every farm family who wants to see their business survive into the next generation must resolve.[1] How well they balance the resolution of these dilemmas depends on the characteristics of the family and the farm business and ultimately determine the success of efforts to pass the farm on to the next generation. The three factors that constitute the balancing act are:

- retaining an adequate retirement income,
- being "fair" to all children,

[1] Issues of New Zealand Farm Succession: A Study of Intergenerational Transfer of the Farm Business, Summary of Findings and Policy Implications, Heather McCrostie Little, Nick Taylor, June 1998

- managing succession so that the successors and the farm business are not burdened with unreasonable debt.

In spite of the state of the agricultural economy, many farm families will endeavor to ensure the continuity of their family on the land. For some, succession will be achieved relatively smoothly, for others it will be difficult or impossible. Planning and management will come too late and as a consequence, succession may not be achieved, resulting in a weakened business operation facing ultimate sale, often to developers.

Delayed succession has an impact beyond the individual farm gate. It threatens the concept of stewardship of the land and transferring the land in better shape than it was received because it makes realizing the farm goals of the next generation more difficult to achieve.

The succession process and the desire to have a sustainable agriculture industry are intertwined. Without better succession strategies, the industry as a whole is impacted; contributing to further decline in new farm entrants and increasing pressure to sell to developers. These strategies should occur at the beginning of each farm business cycle.

**Start-up Training Assistance and Hands-on Experience**

The fact that the U.S. is failing to adequately address the development of new farmers is increasingly acknowledged. In fact, the widely acclaimed report from the National Commission on Small Farms "A Time to Act" highlights this problem and includes "establishing the next generation of farmers" as one of eight policy goals. Pennsylvania Farm Link is one of the partners in the Northeast Beginning Farmer Development Initiative (funded by the Kellogg Foundation and others), who will work to provide an infrastructure of information and support to address barriers facing new entry farmers. We expect to alter young people's perceptions so that they will learn skills and receive the support necessary for a successful career in production agriculture.

Beginning farmers share a common set of basic needs. They are:

- access to training in technical, business management and marketing skills,
- access to land,
- improved credit worthiness and access to appropriate credit and timely technical assistance,
- ongoing and responsive support infrastructure, and,
- opportunities to gain farming experience.

Today, there is no clearly defined career pathway or method of recruitment for production agriculture as there is in other industries. Exposing interested high school students to on-farm production skill-building and conservation practices are vital first steps in developing that pathway.

Minority students at the W.B. Saul High School in Philadelphia are targeted for a pilot registered youth apprenticeship in production agriculture. This is the largest vocational school in the nation, but students have very little opportunity outside of the school's own farm to gain real-farm experience. Most students do not enter production agriculture careers, but instead enter other agriculture professions. Rural school districts are also included in the project.

Collaborating organizations already committed to the project include: W.B. Saul High School, Pennsylvania Department of Labor, Pennsylvania Department of Education, Pennsylvania Department of Agriculture, National Resources and Conservation Service, Rural Development, Pennsylvania Farm Bureau, and the Mid-Atlantic Master Farmers Association. We will work with farmers, teachers, the Department of Labor, and the Department of Education to develop a curriculum for the instruction and work skill competencies students will need to complete a registered apprenticeship. (A registered program is planned and organized, meets national criteria for skill competence, facilitates compliance with Federal and State Equal Employment Opportunity, and is replicable).

**Marketing and Entrepreneurial Skill Development**

The global food economy, where capital and technology are mobile and can be transferred to other part of the world with the lowest labor costs and least government regulation is a playing field that leave out a large portion of Pennsylvania's family size farms. The food system now resembles an hourglass with many producers and millions of consumers but very few buyers. For the producer to obtain larger profits, alternative marketing channels need to be developed.

Farm Link targets beginning farmers for development of marketing and entrepreneurial skills with an emphasis on alternative-marketing channels. Seven marketing/entrepreneurial development meetings are scheduled at successful farm and market sites. The focus of these direct marketing sessions includes the PA Department of Agriculture's Produce Project, roadside marketing, specialty markets, farmer's markets, farmer-owned cooperatives, church supported agriculture, CSA's, subscription farming, IPM education, and other direct marketing approaches. Less capital intensive methods of farm entry and sustainable agriculture practices are major focuses of these workshops.

An annual Beginning Farmer Workshop focuses on low cost entry, sustainable agriculture, direct marketing, and entrepreneurial skill development. Speakers include successful farm entrepreneurs who have established direct marketing channels and developed successful partnerships and joint ventures. Beginners learn how established farmers have succeeded in these efforts and the pitfalls to avoid. Participation is open to all with special effort focused on FFA chapters and farm organizations.

**The Results**

Farm Link responded to 602 farmer inquiries last year and served over 600 people in farm succession and marketing/entrepreneurial development meetings. Follow-up survey results indicate many positive responses:

- 6% of the participants transferred their farm to a successor within the year.
- 94% were involved in the chain of decisions necessary to bring in a successor.
  --more than 50% were communicating better with farm partners;
  --48% met with family members to start the planning process;
  --49% realized they needed to begin the succession process earlier;
  --74% were reading more about succession planning issues;
  --Many said it created a sense of urgency to begin succession planning.
- 15% started their farm operation as indicated by filing a loan application.
- 66% were working toward better business plans, including improving their record keeping, determining the financial feasibility of their business, or upgrading their business plan.
- 100% investigated additional markets.

# Pennsylvania Farm Link Annual Report

**July 1, 1998-June 30, 1999**

*"Creating farming opportunities for the next generation."*

# Pennsylvania Farm Link, Inc.
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| Mr. Barry Denk | Center for Rural Pennsylvania |
| Mr. Tom Gettings | Wildlands Conservancy |
| Ms. Mary Heinricht | American Farmland Trust |
| Mr. Nevin Horning | Pennsylvania Young Farmer Association |
| Mr. Bryan Huff | Farmer |
| Mr. Robert Junk | Pennsylvania Farmers Union |
| Mr. Charles Marshall | Farm Service Agency |
| Mr. Russell Redding | Pennsylvania Department of Agriculture |
| Ms. Michelle Rodgers | Penn State Cooperative Extension |
| Mr. Gary Smith | Chester County Development Council |
| Mr. William Steel | Pennsylvania State Grange |
| Mr. Michael Thomas | Pennsylvania Association for Sustainable Agriculture |
| Mr. John Vogel | Pennsylvania Farmer Magazine |
| Mr. Timothy Weller | Pennsylvania Department of Education/ Pennsylvania Future Farmers |

## Staff

Marion L. Bowlan, Executive Director
Project Associate

Pennsylvania Farm Link, Inc.
2708-A North Colebrook Road
Manheim, PA 17545
Phone: 717-664-7077
Fax: 717-664-7078
email: pafarmlink@redrose.net

Pennsylvania FARM LINK

"Creating farming opportunities for the next generation"



A New Year...New Challenges To Meet

It has been another exciting and productive year for Pennsylvania Farm Link. We continued to expand our activities, to reach our goals. We are committed to helping retiring Pennsylvania farmers transfer their farming operations to the next generation and also linking people who want to start farming with farming opportunities. Our workshop topics and individualized technical assistance and information have been "right on target" for people who are either planning to get out of farming, or get into farming, stay in and prosper.

Farming has always been a challenging occupation to say the least, and today's farmers really need to be optimistic entrepreneurs to maintain a viable business. By linking farmers and new and beginning farmers with the people and information they need, Pennsylvania Farm Link is helping people meet the challenges. We are making a difference. Here are just of few of an impressive list of our 1998 accomplishments.

- Attendance at our "Passing on the Farm" workshops continues to increase, with over 300 participants at six workshops this year. Participants said they gained knowledge in loan requirements, tax and estate planning, communication skills, business planning, and conservation easements. Follow-up telephone surveys revealed:

  94% of the participants called, are now involved in decisions to bring in a successor.
  33% scheduled meetings with financial advisors.
  40% talked to an estate planner about transferring farm assets.
  55% are working on improving their business plans.
  42% investigated farmland preservation programs.

- We responded to 606 inquiries from farmers and provided individual technical assistance to 28 farm families on farm succession planning. We "linked" the people with the questions with the appropriate people and resources with the answers.

- As a result of our "linking" service, six links were made this year. That means six more farms that have either been transferred over, or are in the process of transferring to the next generation. At least two links occurred this year as a result of our "Passing on the Farm" workshops. Adding eight links this year to our previous record brings the total number of links to 46 since we started in August of 1994. Since our beginning, we

2708-A North Colebrook Road, Manheim, PA 17545 Telephone (717)664-7077 Fax (717) 664-7078 email:pafarmlink@redrose.net

have also provided a total of 115 families with the technical assistance and guidance they needed for their own farm transfers.

- Our seven "New and Beginning Farmer Workshops" and "Marketing/Entrepreneurial Skill Development Meetings" proved successful as well. Over 300 participants heard the success stories of entrepreneurs with operations ranging from Community Supported Agriculture, farmer's markets, cooperatives to supermarkets. As a result of these workshops:

  15% have applied for loans to start up a farming operation.
  66% are working on improving their business plans.
  100% have investigated additional markets.
  50% are looking at lower cost production strategies.

Yes, it has been a busy, productive year for Pennsylvania Farm Link. We have accomplished a lot. From input from the farming community, we can see clearly that our work is greatly needed and we are reassured that we are helping farmers, young and old, with some of the many challenges of agriculture. This next year we will continue with our workshops and meetings, maintaining our database, and linking people with the resources they need and with farming opportunities. We will also be starting a new, registered farm apprenticeship program, linking people with hands-on farm/business experiences.

The Pennsylvania Farm Link staff and Board of Directors are proud of what we do, and look forward to meet the challenges of the up-coming year.

Sincerely,

Diane Matthews-Gehringer

Diane Matthews-Gehringer
President / farmer
Pennsylvania Farm Link

## The Next Generation of Farmers?

***We have a crisis in the making***. Pennsylvania agriculture has twice as many farm operators over the age of 70 as under the age of 35. Who will be our next generation of farmers?

Potential replacement farmers, under age 35, make up only 8 percent of our total number of farm operators, according to the 1997 Census. Minority farm operators account for only 2.5% of the total farm operators in Pennsylvania in 1997. Are we prepared for retiring farmers to sell off their properties for housing or industrial development, due to the lack of well-trained, business-oriented younger farmers?

*"That so few young people are going into farming is one of the most critical problems of American culture. It is implicitly a huge economic problem... "—Wendell Berry*

***The Problem:***
Pennsylvania Farm Link identified three major problems contributing to the decline in potential young farmers. They are:

- The need for earlier farm succession planning,
- The need for start-up training assistance and hands-on experience for potential farm entrants
- The increasing entrepreneurial skills required to generate higher profit margins. Farm Link's programs aggressively address these needs by helping farmers develop better succession strategies and providing job training assistance to beginning farmers.

***Pennsylvania Farm Link's response:***

- Six Farm succession planning workshops with over 300 participants
- Seven marketing/entrepreneurial skill development meetings had over 200 participants
- New and Beginning farmer workshop attracted 150 participants
- Database linking service answered over 600 inquiries
- Individualized technical assistance, information, and referral for farm succession planning to30 families
- Pilot youth apprentice/mentoring program in production agriculture

**Farm Succession Education at Six "Passing on the Farm" Workshops**

Six "Passing on the Farm" Workshops were held using Wallace Genetic and USDA funds in Southwestern, South Central, and Southeastern Pennsylvania. Over 300 participants attended these workshops in Montgomery, Franklin, Armstrong , Washington, York, and Westmoreland Counties. Attendance is increasing with farmers traveling as much as three to four hours. Farmers express their keen interest in this subject and express willingness to learn more about it.

The following organizations participated in these workshops: American Express Financial Advisors, Farm Credit, Farm Service Agency, farmland preservation programs, farmers, Next Generation Farmer Loan Program, lawyers, Pennsylvania Association of Sustainable Agriculture, Pennsylvania Department of Agriculture, Pennsylvania Farm Bureau, Pennsylvania Farmers Union, Penn State Cooperative Extension, and the Wildlands Conservancy.

With a minimum of 10,000 farms changing hands in the next decade in Pennsylvania, we continue to realize the need to assist families in the complexity of decisions that need to be made to transfer the farm business. Families own 90% of Pennsylvania farms, and yet, only about 30% succeed into the next generation and only 15% are transferred to the third generation. To secure our food supply, we must examine what happens to these farms when the current owner is considering retirement or is incapacitated.

Transferring management and control of the farm business is a complicated and stressful process for most families. Decision-making needs to begin early and draw on resources from the professional community. The importance of addressing the fears, wants, and needs of each family member is a critical part of the process. "Passing on the Farm" workshops provide participants with information defining essential decisions that need to be made before the transition of assets can take place. These decisions result in action steps that transfer management, control and capitol of the farm to the next generation, whether it is an heir or an unrelated individual.

In a family business, planning and communication skills cannot be separated. Those families who find planning for the future of their farm stressful are usually the ones who are unable to communicate with each other. Ways to develop these skills and the differing needs of the partners in the transition are addressed in workshop sessions. The need for regular business meetings, written business agreements and written job descriptions are reviewed and explained and discussed along with the farm family cycle, and the need to agree that there are mutual interests in fostering a continuation of the farm business. The need to develop personal goals and a mission statement for the farm business are also reviewed as well as tips on how to develop the next generation's talents and abilities.

Workshop topics included:

- Bringing the next generation into the farm business:
- Business planning and record keeping
- Estate planning:
- Financing the next generation
- Conservation easements and their role in farm transfers
- Legal issues
- Local farmers discuss succession strategies that worked for them

**Follow-up indicates that earlier succession planning has resulted.** Follow-up telephone surveys reveal the range of succession planning activities taking place as a result of these workshops.

- 6% of the participants transferred their farm to a successor within the year.
- 94% were involved in the chain of decisions necessary to bring in a successor.
  --more than 50% were communicating better with farm partners;
  --48% met with family members to start the planning process;
  --49% realized they needed to begin the succession process earlier.
  --74% were reading more about succession planning issues
  --Many said it created a sense of urgency to begin succession planning.
- 55% took the initial step in the business plan by taking inventory of farm assets.
- 48% were working on a business plan and keeping better farm records
- 33% scheduled meetings with a financial advisor to review their business records and
- 27% talked to an accountant about the financial feasibility of transferring their farm.
- 40% talked to estate planners about transferring assets, setting up trusts, and developing partnerships.
- 33% scheduled a meeting with an attorney to talk about farm transfers; 33% were planning to.
- 25% inquired about a loan to finance farm transfer.
- 42% investigated local farmland preservation programs

Pre- and post- testing of participants demonstrated knowledge gain in the following areas: loan requirements, tax and estate planning, communication skills, business planning skills, and conservation easements.

*"In order to be successful in conserving farm land in Pennsylvania, the state needs to support these types of programs to the fullest extent... We know that new farmers are the key to preserving farmland.*

--Comment from a "Passing on the Farm" Workshop

### *Farm Succession Encouraged by Technical Assistance and Resource Location*

Farm Link responded to 608 inquiries from farmers and provided individual assistance to 30 families on the technical parts of a farm succession plan. Information provided included business planning, transfer planning, leasing arrangements, business arrangements, selecting a professional, goal settings, and lifestyle goals. Appropriate links or referrals were made to legal, financial, accounting, state and federal programs for farmers, and personal counseling professionals.

Educational exhibits were sponsored at the Pennsylvania Farm Show, Ag Progress Days, Rodale's Garden Fest, PASA Conference, Pennsylvania Farmer's Union Convention, Wayne County Dairy Days, Wyoming County Dairy Days, the Pennsylvania Young Farmers Conference, Growing Greener Conference, the Wildlands Conservancy Meeting with farmers, and the Cornucopia for State Legislators. Literature on farm transfers, consultation and technical assistance was provided at these events. Several also included educational forums on the need for succession planning.

### *Farm Succession Enhanced by Linking Service*

Many farm owners have no family member to take over their farm operation, but would like to see their "life's work" remain in agriculture. Farm Link's database assists these individuals locate an appropriate beginning farmer for their farm.

As a result of our linking service, farm link was a part of six links this year; three links were accomplished by linking both parties and three occurred because of information, technical assistance and guidance. The links between parties included two beginners starting as employees on dairy farms and one is renting a farm and purchasing the owner's cows. Individual assistance and follow-up is provided to all Farm Link applicants. The current mailing list includes 768 entering farmers and 169 landowners.

### *Outreach and Career Development Provided at Beginning Farmer Meetings:*

Experience has taught us that beginning farmers share a common set of basic needs. They are:

- access to training in technical, business management and marketing skills,
- access to land
- improved credit worthiness and access to credit appropriate and timely technical assistance
- ongoing and responsive support infrastructure and
- opportunities to gain farming experience.

With funding from the Pennsylvania Department of Agriculture and Pennsylvania Rural Development (of USDA), Farm Link hosted 7 meetings focused on marketing, business management, and entrepreneurial skills.

Thirty-five individuals who wanted to learn more about *Community Supported Agriculture (CSA)* had the opportunity to hear from a large (125 families) and a small grower (20 families) who had over 25 years of farming experience. Both growers focused on the advantages and pitfalls of this marketing approach.

The next two sessions, held in Lancaster and Dauphin Counties, drew 28 participants and highlighted the *Supermarket Produce Project* spearheaded by the Pennsylvania Department of Agriculture. Growers and supermarket produce managers learned about each others expectations on purchasing local products, variety selection, packing, grading, quantity expectations, delivery, and other marketing ideas.

A *roadside market* and value-added farm business/restaurant business was the focus of the third marketing session in western Pennsylvania. 18 participants learned about the need to identify the unique qualities of their farm business, to stay focused on "who" they are, and to develop complimentary enterprises to support bringing in the next generation. Other marketing projects in the southwestern area, including the Pennsylvania Association for Sustainable Agriculture's (PASA's) marketing efforts, and the Pennsylvania Farmers Union (PFU) beef cooperative were highlighted at this event.

Farm Link supported the *Direct Marketing Association farm tour* with mailing and press assistance. Again, examples of local entrepreneurial and marketing efforts were highlighted in this tour of Southeastern Pennsylvania farm markets.

The Farmers Union (PFU) and Farm Link sponsored a workshop on *starting grower cooperatives.* A United States Department of Agricultural (USDA) cooperative specialist outlined the reasons for starting cooperative, how to get one operational, and the successes and pitfalls of previous attempts. A Farm Credit representative informed participants on the roles and responsibilities of board members and staff. PASA and PFU covered their current market efforts including the pilot phase of a beef marketing cooperative in Southwestern Pennsylvania. Finally, a panel of cooperative members addressed the benefits and limitations of each of their respective cooperatives including a dairy coop, a cull cow-marketing network, a vegetable marketing initiative, and the beef cooperative.

Farm Link partnered with Franconia Mennonite Conference and Creation Continues Educational Service to sponsor a *direct marketing workshop* in Lititz, PA that attracted 130 participants. The focus of the event included discussions on how-to direct market meat products from the farm, relationship marketing concepts, and involving the faith community in efforts to support local farmers.

In cooperation with Penn State Cooperative Extension and the Farmer's Market Trust, Farm Link presented a meeting on *selling at farmer's markets.* Changing consumer demands in fresh market produce, marketing principles, market displays, signage, planting strategies, crops to grow, and value-adding strategies were discussed. Area growers also contributed first hand knowledge on their farm market experience and strategies.

## Vision and Knowledge of Changing Markets Inspire Beginning Farmers

Sam and Beverly Minor's talk "On a Clear Day You Can See Forever" encouraged 130 beginning farmers to use their vision and desire, do their homework, assess the risks, and begin their dreams of establishing a successful family farm business, as they did 24 years ago. Just as their business grew and transitioned, they urged beginning farmers to adjust their vision, their plans, and their way of doing business to meet the needs of a constantly changing marketplace.

Carrying this theme to other workshop sessions, The New Farm Entrepreneur: Pennsylvania Farm Link's Fifth Annual New and Beginning Farmer Conference, provided beginners with knowledge on how the ever changing market could be used to create opportunities and career development. Workshop topics included Starting from Scratch, Working into a Family business, Business Plan Development, Choosing an Enterprise, Poultry and Livestock Marketing, Value-Added, Niche Marketing, Dairy, Mentoring, Financing, Roadside Markets/Pick Your Own, and Marketing to Supermarkets.

### The results - farm business starts

Tomorrow's agricultural economy requires greater marketing and entrepreneurial skill to compete in the global market. Today's farmers are looking for opportunities to realize higher profits through more direct marketing avenues.

Road side market, community supported agriculture (CSA) farmers' market, direct market, cooperative, and supermarket entrepreneurs provided insight and expertise to over 300 participants in Farm Link's New and Beginning Farmer Workshop and seven marketing meetings.

Actions taken:

- 15% started their farm operation as indicated by filing a loan application.
- 66% were working toward better business plans, including improving their record keeping, determining the financial feasibility of their business, or upgrading their business plan.
- 100% investigated additional markets.
- 50% were looking for lower cost production strategies and start up strategies and were actively talking to other farmers.
- Most were advancing their careers by additional reading, taking courses and workshops, and talking to other agricultural organizations and beginners.

## The Future

Offering hope to young people who want to farm in the 21st century, would appear to scoff at conventional wisdom. Farming without a lot of financial help does seem hopeless to many, but getting started in farming is still possible, if not easy.

We have learned that a beginning farmer's survival is enhanced by a good education, an education that goes beyond book learning. For any beginning farmer, the real world has to be an important part of his/her education whether from a farm background or not. Students bound for a career in law or medicine get experience as law clerks or interns. But students who didn't grow up on farms won't find a clear path to a profession in production agriculture. To establish that rung on the career ladder to farming, Pennsylvania Farm Link will expand its services in 1999-2000 to include a youth apprentice/mentoring program in production agriculture.

Frugality and thriftiness are also essential ingredients for success. Even though credit is a necessary tool in production agriculture, farmers cannot borrow their way to wealth. What every young farmer needs is good business planning skills. To be successful today, young farmers need to know how to push a pencil-or computer mouse-as well as how to put a crop in the ground. Pennsylvania Farm Link will continue to assist those with the desire to start farming acquire these business skills.

**New Hampshire**
New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

**New Jersey**
State Ag Development Committee
(609) 984-2504
E-mail: agsduda@ag.state.nj.us

**New York**
NY Farm Net
(800) 547-3276
E-mail: crm3@cornell.edu

**Ohio**
Ohio Farm Link
(614) 221-9520

**Pennsylvania**
PA Farm Link
(717) 260-0400
E-mail: pafarmlink@redrose.net

**Rhode Island**
New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

**South Dakota**
SD Dept of Agriculture
(605) 773-5436

**Vermont**
Land Link Vermont
(802) 656-0233
E-mail: dheleba@zoo.uvm.edu

New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

**Wisconsin**
Farm Link Services
(800) 942-2474
E-mail: garvegv@wheel.datcp.state.wi.us

## *Vision Statement*

The National Farm Transition Network's purpose is to support programs that foster the next generation of farms and ranches. The difficulty of transferring independently owned and operated farm and ranch businesses to the next generation is the critical issue that must be faced. There are twice as many farmers and ranchers over sixty years old as there are farmers and ranchers under thirty years of age. We believe that a profitable, independently owner-operated system of agriculture is necessary for the economic well being of rural communities and the entire society. We support the development of creative entry and exit strategies for farm and ranch business owners and the protection of agricultural resources to insure their availability for future generations.

Network's coordinating office:
ISU Extension Outreach Center
2020 DMACC Boulevard
Ankeny, IA 50021
800-447-1985

5/99

# *National Farm Transition Network*

*Supporting programs that foster the next generation of farmers and ranchers.*

## A Beginning Farmer is someone who...

- wants to find a way to pursue or continue a farming career.
- is willing to invest time, energy, resources, and sweat equity in return for an opportunity to farm.
- has a desire to farm but limited resources.
- wants to avoid large debt needed for start-up costs.
- is not a farm land owner.

## A Retiring Farmer is someone who...

- plans to retire within 5-10 years.
- wants to find someone to continue the farm business.
- wants to help a beginning farmer.
- would like to take maximum advantage of tax savings, such as reduced capital gains and income tax in land transfer.
- wants to help preserve the family farm business and the local communities by encouraging young people to move into farming.

*IF YOU ARE A BEGINNING OR RETIRING FARMER, THE NATIONAL FARM TRANSITION NETWORK CAN HELP YOU.*

## Network programs provide a range of services including:

- Clearinghouse or directory services that match beginning and retiring farmers
- Educational programs
- Support services such as retirement and estate planning
- Credit access
- Beginning farmer training opportunities
- Mediation
- Technical assistance

If you live in a state that is not serviced by a program, contact the Network's coordinating office at 800-447-1985. Check the Web site for updates:
www.extension.iastate.edu/Pages/bfc/national/

## Network Participants:

Arkansas
Farm Link of Arkansas
(501) 682-5886

California
Ag Link Inc.
(800) 588-5465

Connecticut
New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

Iowa
Farm On
(800) 447-1985
E-mail: x1jbaker@exnet.iastate.edu

Ag Connect
(515) 333-4656

Maine
New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

Maryland
Eastern Shore Land Conservancy
(410) 827-9756

Maryland Farm Link
(410) 841-5770
http://www.mda.state.md.us/farmlink/farmlink.htm

Massachusetts
New England LandLink
(413) 323-4531
E-mail: nesfi@igc.apc.org

Michigan
Young Farmer Department
Michigan Farm Bureau
(800) 292-2680

Minnesota
Minnesota Farm Connection
Passing on the Farm
(800) 657-3247
E-mail: landerso@gf.mnwest.mnscu.edu

Montana
Montana Farm Link
(406) 443-7272

Nebraska
Land Link
(402) 846-5428
E-mail: joyl@cfra.org
Web site: http://www.cfra.org

**Testimony of John Baker**

Honorable Members of the House of Representatives it is indeed an honor and a privilege to appear before you today. My name is John Baker. I am an Attorney and I work for Iowa State University Cooperative Extension Service. I am the Staff Attorney at Iowa Concern Hotline, an information and referral service maintained by Iowa Extension and I administer the Beginning Farmer Center. The Beginning Farmer Center was created by the Iowa Legislature in 1994 and charged with the responsibility, among other things, to discover ways to facilitate the entry of aspiring farmers into production agriculture. I have provided you with a copy of the legislation that created the Beginning Farmer Center and its most recent report to the Iowa Legislature. I also administer the Iowa Farm On project which links aspiring beginning farmers with existing farmers and landowners. Included in the written material is the Farm On brochure.

In addition to my duties at Cooperative Extension I serve as the Coordinator of the National Farm Transition Network. The National Farm Transition Network is made up of twenty individual organizations that are involved in the linking of aspiring beginning farmers with existing farmers and landowners. The member organizations of the Network include Universities, State Departments of Agriculture, for profit and non profit organizations. The purpose of the National Farm Transition Network is "Supporting programs that foster the next generation of farmers and ranchers." The Network has been in existence since 1991. I have provided you with a brochure listing the member organizations.

The most important question facing American farmers and ranchers today is whether or not there will be another generation of individually owned and operated farms and ranches. Some argue that the current economic crisis faced by farmers and ranchers is the critical issue. I would argue that when we solve this instant problem, and we will, if we do not provide for the next generation we have accomplished little. The number of farms and ranches has declined precipitously over the last twenty years. For example, in 1980 Iowa had approximately 120,000 farms. Today, Iowa has approximately 96,000 farms and it is estimated that we may lose 6,000 of those farms within the foreseeable future.

With the decline of young people entering production agriculture the age of existing farmers continues to increase. The average age of an American farmer is now 54.3 years. Simple demographics indicates that within the next ten to twenty years a significant number of farms and ranches will either cease operations or succeed to the next generation. We have a unique opportunity to influence which of these two options will become reality.

The problem of moving independently owned and operated farm family businesses is recognized by farmers and they are concerned about the future of American agriculture. In the Sunday, October 31, 1999 issue of the Des Moines Register Ms. Allison Berryhill, a farm wife, wrote an article titled "In consideration of farming". Ms. Berryhill and her husband farm in southwest Iowa near the town of Atlantic. In this eloquently written article, Ms Berryhill laments the fact it is probable that none of her children will farm. She relates the stories of a number of farmers in her neighborhood that have quit farming. The last sentence of this poignant article states the frustration of many of today's farmers, "We are still farming the land, but we've altered our production: I don't think we're raising farmers anymore."

The Beginning Farmer Center has engaged in a variety of efforts to assist beginning farmers, farmers and land owners in their efforts to continue the existence of family owned and operated farm business. We have developed a farm business succession manual titled "Farm Savvy". The Farm Savvy manual outlines a farm business succession planning process. A diagram of that process is included in the written material. Further, we have conducted research in the method of delivery of information to young farmers. We are currently involved in the development of an instrument that will help beginning and existing farmers to identify their values so that they may develop business goals and objectives that agree with those values. In January we will begin a longitudinal survey of several hundred Iowa farmers concerning their farm business succession plans. Provided that adequate funding can be found, we hope to replicate this survey throughout the United States.

In Iowa the Iowa Department of Agriculture and Land Stewardship, the Beginning Farmer Center, the Iowa Agricultural Development Authority and several other organizations recently met to explore ways in which the State of Iowa might address these problems. After several meetings and much discussion this group made a series of recommendations to Iowa Secretary of Agriculture Patty Judge. Secretary Judge has endorsed these recommendations and will be presenting them to the Iowa Legislature when it convenes in January of 2000. Significant among these recommendations is to use the Iowa income tax code to provide incentives for existing farmers and landowners to provide an entry opportunity to beginning farmers. A copy of the recommendations is included in my written remarks.

The National Farm Transition Network also recognizes the importance of this issue. The Network believes that the economic future of a nation's agriculture depends on the ability of a new generation to enter farming. The barriers faced by the next generation are creating a crisis in agriculture. Challenges to farm entry include:

- Insufficient farm entry strategies.
- Insufficient farm exit strategies.
- Inability to acquire the initial capital investment.
- Difficulty in identifying viable farm entry opportunities.
- Difficulty in obtaining appropriate financial, managerial, and production assistance.
- Lack appropriate community support.

The Network believes that programs that help create the opportunity for young people to begin a career in agriculture, particularly by addressing farm access, must be part of the government's and private sector's, including farm organizations, rural development effort. To that end, the Network has made several recommendations to the Small Farms Coordinators that were created by the USDA's Small Farms Commission.

If I may be so bold I have several recommendations that I urge the Congress to consider. The Federal income tax code should be amended to provide incentives for existing farmers, ranchers and landowners to provide an opportunity to existing farmers and rancher. An income tax credit should be provided on the first $20,000 of income from the lease of farm or ranch business assets by an existing farmer, rancher or landowner to an operating beginning farmer or rancher. An income tax credit should be provided on the first $20,000 of income from a farm or ranch business enterprise operated by a beginning farmer or rancher. An income tax credit should be provided on the first $10,000 of income from the sale of a share of a closely held value added business entity to a beginning farmer or rancher.

An interest free loan program for the creation of a value added closely held agricultural business entity should be created.

Finality, USDA should provided matching grant funds to organizations that link existing farmers, ranchers and landowners with aspiring beginning farmers and ranchers.

Thank you for you kind attention to my remarks.

**STATEMENT OF SUSAN OFFUTT**
**ADMINISTRATOR, ECONOMIC RESEARCH SERVICE**
**UNITED STATES DEPARTMENT OF AGRICULTURE**
**BEFORE THE**
**UNITED STATES HOUSE COMMITTEE ON SMALL BUSINESS**
**SUBCOMMITTEE ON EMPOWERMENT**
**AND**
**SUBCOMMITTEE ON RURAL ENTERPRISES, BUSINESS OPPORTUNITIES, AND SPECIAL SMALL BUSINESS PROBLEMS**
**November 3, 1999**

Mr. Chairmen and Members of the Subcommittees, I am pleased to appear before you today to discuss the aging of agriculture and the participation of young producers in farming.

One of the most remarkable trends in the United States has been its transformation from a largely agrarian society, with one third of the population living and working on farms in the 1920s, to a highly urbanized society today, with fewer than two percent of the population living on farms. At the same time, farm numbers have declined by two thirds. The remaining farm population is slowly aging; the most recent agricultural census determined the average age of farmers to be 54.3 years. Because such findings may lead to speculation about the future of farming in America, it is useful to look more closely at those in farming and at those considering entering farming as a way of understanding how the age and structure of the farm population change over time. The factors that influence decisions about entry and exit from farming are important to understand, as well.

The U.S. farm population

Over the past four decades, the average age of American farmers has crept upward from 51.3 years in 1964. Today's farmer at 54 is about the same age as most self-employed, small businessmen in the U.S. The average age has risen over time as farmers have decided to work longer, reflecting the fact that, like the rest of the U.S. population, they are healthier longer than their counterparts decades ago. The average age also rises as the composition of the farm population changes, with relatively fewer younger people than in the past. It is also likely, however, that the agricultural census data overstate the average age. The census counts one operator per farm, usually the eldest member of a farming family. So, a father aged 60 would be counted as the farm operator but his 36 year old son, also actively farming and likely looking forward to taking over the farm, would not be counted in the census at all. Excluding children who help operate the family farm thus biases the calculation of the average age upward. Plans for the next census of agriculture includes changing procedures so multiple operators can be recorded for one farming operation.

The number of young entrants into farming has nevertheless fallen over time. However, as explained, there are likely more young people in farming than are currently counted by the agricultural census, although how many more is difficult to say. But the fact that there are more young farmers is confirmed by data from the Department of Labor that report labor force participation, and many more people report farming as a major occupation than there are farm operators. It seems probable at least some of these people are indeed the next generation of farmers. Still, the traditional pool of new entrants into farming, white males in their twenties growing up on family farms, is shrinking, from about 700,000 in 1990 to perhaps 365,000 today. This shrinkage is attributable both to the decline in farm numbers and to the fact that farm families have fewer children than in times past. Even so, the typical path to farming is entry through the family farm business. One alternative path, through what is known as the 'agricultural ladder,' is less frequently observed, in which a hired farm worker becomes a tenant and ultimately an owner-operator. However, the fairly recent increase in the number of minority farmers may suggest that the agricultural ladder is making a comeback.

The net result of entry and exit into the farm sector over decades has been fewer farmers. What has generally happened is that several farmers are replaced by one farmer who produces a larger amount of agricultural goods. Increases in labor productivity in agriculture have been rapid enough to maintain farm output even in the face of fairly strong declines in the number of farmers. So, changes in the age composition of the farm population or in its overall size have not and will not likely have adverse implications for the nation's food security. However, these shifts may raise concerns about the structure of farm and rural communities.

### Factors affecting the decision to enter farming

A person's decision to enter farming is conditioned by the relative attractiveness of farm versus non-farm earning opportunities and by the ease of entry into farming as a business.

Weakness or strength in the farm economy relative to the rest of the U.S. economy influences a person's estimation of future earning potential. When the non-farm economy is robust, young people may opt for higher, more stable incomes available off the farm. With the remarkable and sustained growth in the U.S. economy over the past decade, the pull of better incomes has been important. Traditional farming regions such as the Northern Plains and the Midwest tend to have well-educated populations, and to the extent that the economy has lately put a premium on high skilled workers, educated young men and women raised on the farms in those areas may increasingly find attractive off-farm jobs. But it may also be true that good times in the off-farm economy actually encourage entry into farming. Like their non-farm counterparts, the majority of U.S. farm households have two earners and usually significant off-farm income, which acts as a supplement and a buffer to swings in income from the farm operation. When off-farm earning opportunities are promising, then, a household may decide it can better absorb the risks of having one earner engaged in farming.

The relative ease of entry into farming also figures in a young person's deliberations over whether to get started in agriculture. Both access to financial capital and to specialized farming knowledge matter.

Farm businesses have relatively high capital requirements. Experience suggests that it takes on average $500,000 in assets to fully support a farm household. A new farmer can use his own capital, have it provided by others, or borrow it. Entrants into farming are distinguished not so much by age or experience as by whether they had their own capital. Young commercial farmers, those under 40 whose primary occupation is farming, then, can be divided into two groups, those who entered with capital, usually inherited from family, and those who did not. These groups differ sharply with respect to financial structure and performance and sources of credit. Young commercial farmers with more than $150,000 in net worth, who operate about five percent (100,000) of all U.S. farms, are less likely to display financial stress than those with fewer resources and more likely to use commercial rather than subsidized credit. Young low resource farmers, those with less than $150,000 in net worth, operate about two percent of all U.S. farms (40,000) and must either borrow more and/or find other sources of equity, sometimes provided by landowners when farmland is leased or through use of production contracts. That there appear to be considerably fewer young low resource than young established farmers suggests the importance of the capital requirement as a barrier to entry into farming.

Entry of both established and low resource farmers is influenced by Federal and State policies. For those whose capital comes from their family, the Taxpayer Relief Act of 1997 was a significant event. Federal estate tax relief is especially important for farmers and other small business owners who hold significant amounts of wealth in business assets. The Act substantially increased the size of farms or other small businesses that can be transferred tax free by increasing the unified credit and by allowing a new exclusion for interests in a family farm. It also made important changes to special valuation and installment payment provisions. These changes will make it easier to transfer the family farm across generations by reducing the likelihood that the farm or some of its assets will need to be sold to pay estate taxes. It should be noted that such estate tax provisions may also encourage older farmers to stay in the business longer, which has the effect of raising the age of the farm population even as the objective of passing the farm to the next generation is being met.

Young low-resource operators may obtain financing from commercial banks and from USDA's Farm Service Agency (FSA), which reserves funding and operates special credit programs to serve beginning farmers. The Agricultural Credit Improvement Act of 1992 (1992 Act) created a beginning farmer down payment farm ownership loan program and required the Agency to target a percentage of its direct and guaranteed farm operating and farm ownership loans to beginning farmers and ranchers. The down payment farm ownership loan program requires the applicant to make a down payment of at least ten percent of the purchase price of a farm or ranch. FSA then loans up to 30 percent of the purchase price or appraised value, whichever is less, for ten years at a fixed interest rate of four percent. The remaining balance is obtained from a commercial lender or private party, and FSA can provide up to a 95 percent guarantee if financing is obtained from an eligible lender.

Between fiscal years 1994 and 1999, FSA provided loans totaling $2.5 billion to more than 34,000 beginning farmers and ranchers. Nearly 2,000 of these loans were down payment farm ownership loans, which totaled $83.4 million. USDA has entered into memoranda of understanding with 16 States to provide joint financing to beginning farmers and ranchers under a Federal-State partnership, as directed by the 1992 Act.

In addition to these subsidized Federal loans, many state governments operate beginning farmer assistance programs, often using 'aggie bonds' as a method of funding. Aggie bonds are tax-exempt bonds issued by States with proceeds used to back private farm loans or contract sales. Because the interest payments to the bondholders are exempt from Federal income taxes, interest rates charged to the borrower can be lower than commercial bank rates. Many states have such programs, but only a small number of beginning farmers are being assisted because of the limited size of these programs.

While access to capital is important, a new farmer must also know how to farm and how to manage a farm business in the current regulatory environment. Those who grew up in the farm business can obtain this specialized knowledge from their family experience as well as from outside education. For those not from farms, this expertise must be acquired through hired work on farms or education. Technical assistance through Federal or state extension programs may also be targeted to beginning farmers.

The Secretary has established an Advisory Committee on Beginning Farmers and Ranchers, as mandated in the 1992 Act. The Committee advises the Secretary on ways to administer the program of coordinated financial assistance (Federal and State programs) to beginning farmers and ranchers, to encourage State participation, to maximize the number of new farming and ranching opportunities through the partnership, and on other methods to create new farming and ranching opportunities. The Committee recently submitted six recommendations to the Secretary. The Committee asked USDA to: (1) provide adequate funding for FSA loans; (2) support changes in tax law concerning State "Aggie Bonds" programs; (3) conduct a comprehensive assessment of FSA's beginning farmer and rancher programs; (4) promote Federal/State beginning farmer and rancher partnerships; (5) assure that adequately trained staff is available to process loans; and (6) support funding of the Small Farmer Outreach Training and Technical Assistance (Section 2501) program. The Secretary is actively considering these recommendations.

That completes my testimony, Mr. Chairmen. I would be happy to respond to any questions.

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Return to Hearing Summary

Return to Home Page of House Small Business Committee

**The United States House of Representatives**
**Committee on Small Business**
**2361 Rayburn House Office Building**
**Washington, DC 20515**
**Phone: (202) 225-5821 Fax: (202) 225-3587**
**Email:** smbiz@mail.house.gov

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# House Small Business Committee

**November 3, 1999**

Contact: Michelle Dimarob
202-225-5821

## THE FUTURE OF AMERICA'S ORIGINAL ENTREPRENEURS – THE FARMER

### Missouri Farmers Speak of How to Empower Young Farmers and Ranchers

**WASHINGTON, DC** – Wednesday, in a joint hearing of the House Small Business Subcommittee on Empowerment and the Subcommittee on Rural Enterprises Business Opportunities and Special Small Business Problems, Missouri farmers joined farmers from across the Nation to discuss the future of farming in Rural America. Specifically, the hearing focused on ways in which young farmers and ranchers could be empowered to remain actively involved in family-owned production farming.

"The average age of a farmer is 55 years old and statistics show that 70% of all small businesses do not survive through the second generation and 87% do not survive through the third generation," said House Small Business Committee Chairman Jim Talent (R-Mo.). "Farmers tell me that they have tried to dissuade their children from a future in farming because farmers just can't earn a decent living. This is inherently dangerous, because if the US wants to continue producing the most affordable, most abundant and safest food supply in the world, then we must find a way to ensure that the family farmer – the original small business owner – has the tools to succeed."

During the subcommittee hearing, farmers highlighted several barriers that often keep young farmers and ranchers from entering the family farm business. Two witnesses – Terry Ecker of Elmo, Missouri and Dr. D. Scott Brown from the Food and Agriculture Policy Research Institute (FAPRI) in Columbia, Missouri pointed to low income as a barrier to entering production farming.

"During 1999, attention continues to be focused on the downward pressure on prices for many of the major agricultural commodities. This is occurring at the same time that some regions of the country have experienced severe drought conditions, with the combination of the two putting even greater pressure on producers. In regards to the lower prices, no single cause can be identified, but rather a combination of fundamental developments in the supply and demand of the commodities," said Dr. Brown.

Ecker echoed, "This hearing is especially timely given the tremendous losses many producers are experiencing due to low commodity prices or crop yields and, in some cases a combination of both," Ecker, a fourth generation farmer and past Chairman of Missouri Young Farmers and Ranchers also added, "I spend quite a bit of time in the cab of a tractor thinking about the future.

I continue to dream of taking over the family farm. But my fear is that continued low farm income will force many producers to take advantage of opportunities off the farm."

Witnesses offered suggestions to brighten the prospects of family farmers including steps to enhance profitability in an effort to make farming more attractive for future farmers and ranchers. Those steps included tax incentives to simplify the tax code, elimination of the death tax, and a reduction in capital gains taxes, pursuing producer-owned value-added processing opportunities, reviewing requirements placed on banks to comply with federal loan programs and developing a sound policy to expand and stabilize trade markets throughout the world.

In closing Chairman Talent noted, "Empowering farmers and ranchers for the future is about combining the best of both worlds – using the knowledge we have gained from generations of producers and combining it with the ability of our youth to adapt new and innovative technologies – so that future generations can reach up the agriculture marketing chain and become the price makers instead of the price takers. I am hopeful that working together, we'll find the right combination and that the end result will be a future where the youth of today see farming not just as a memory of the past, but as a dream within reach for the future."

Return to Press Releases

Return to House Small Business Committee Home Page